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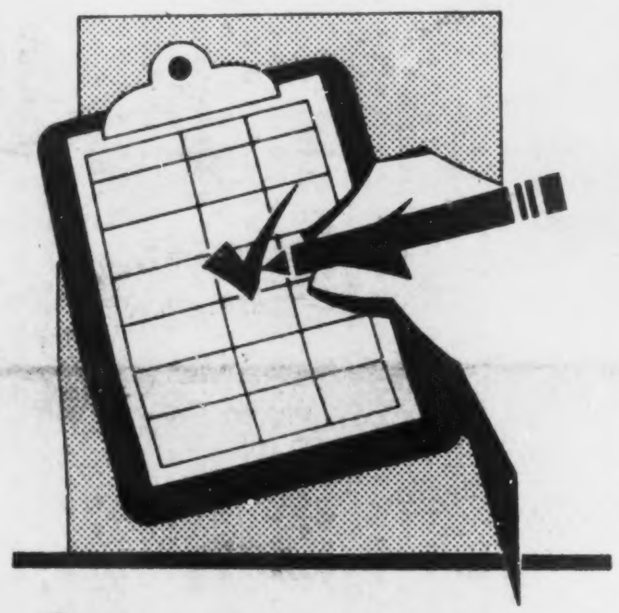
American Banker
The Daily Financial Services Newspaper

Reprint of 1985 Survey Published in October and November

HOW CONSUMER AMERICA VIEWS THE CHANGING FINANCIAL SYSTEM



Firm opinions and some savvy appear in consumers' views of financial services. **1**

Confidence in the nation's financial system seems stable, even up over last year. **2**

Banker ethics fail to live up to public expectations. **4**

Insurance funds for deposits appear insufficient to more than a third of the country. **5**

Interstate banking is welcomed by a majority of consumers. **6**

One-in-ten Americans already cross state lines for bank services. **7**

Consumers report they maintain accounts at fewer institutions than a year ago. **8**

Satisfaction among bank customers showed the most improvement this year. **8**

Additional powers for banks are not needed, a majority of consumers say. **9**

Banks outpace thrifts in confidence among consumers who see a difference. **10**

Failures of state-insured thrifts have tarnished financial institutions nationwide. **11**

Interest in video banking is slipping, but bankers still hold hope for the future. **13**

Automated teller machines have penetrated half the consumer market. **14**

Electronic services have reached nearly two-thirds of the nation. **15**

Survey Suggests Consumer Savvy

Overview

By DAVID LaGESSE

"Times change. But I don't think banks need to change so quickly."

— One consumer's assessment of the evolving financial industry.

The growing sophistication of American consumers and the challenge their rising savvy presents to the financial services industry weave a common theme in responses to a nationwide survey commissioned by the *American Banker.*

Anticipating rapid changes from deregulation, bankers have sought new powers, markets, and technology that they hope will carry their industry into the future. A review of the survey findings, published in a series of articles over the last several weeks, suggests that the public has firm opinions on many of those issues.

The data also implies that bankers face a tough task in trying to modernize the way consumers conduct their personal finances, supporting the notion that consumers are basically happy with the status quo and must be convinced of the value of any change.

The *American Banker* sought to quantify those feelings in this, its second survey on consumer attitudes toward the changing financial services industry. About 1,000 adults were interviewed by telephone in late July by Reichman Research Inc., an opinion-research firm with offices in New York City and San Francisco. Reichman posed some of the same questions that were asked of consumers in the survey conducted in 1984.

The survey results illustrate that even consumers who like modern technology, which has prompted the most dramatic changes for bank customers thus far, express varying levels of enthusiasm for continued changes. That further dampens the predictions of a few years ago, for example, that the nation quickly would move to a paperless financial system.

Now bankers speak of "the Wall," a nickname for the apparent limit to the appeal of all-electronic banking, which only finds favor among a minority of consumers. Long-distance runners use the same term to describe the exhaustion that hits them in a marathon — invisible and often unexpected, but also undeniable.

Banks found that some consumers simply resist using electronics for par-

➜ Survey: Page 2

For the second year in a row, the *American Banker* has commissioned a nationwide survey to learn how American consumers are responding to the great changes in the financial system.

The telephone survey of 1,000 households was conducted by Reichman Research Inc., a New York-based opinion research firm.

American Banker staff writer David LaGesse was responsible for reporting and writing the entire series. Art for the series was prepared by Bill Silbert and *American Banker* Art Director Eileen Berasi.

How Consumer America Views the Changing Financial System

Continued from Page 1

ticular banking transactions, while some resist the new technology for any transaction. Banking at home through personal computers, for example, appears dead in its present form — it has yet to effectively meet widespread needs.

Consumers also won't be forced into anything — a realization that swept the industry after the public backlash to pilot programs that limited human tellers to wealthier customers. Progress toward automation continues, but banks move more carefully — a fact illustrated by recent campaigns to advertise the availability of personal service.

The survey results also suggest that consumers don't harbor a knee-jerk skepticism about bankers or have an inevitable resistance to change. A majority in the survey group, for example, supports the efforts of banks to branch across state lines.

They also distinguish the advantages of interstate banking, citing better and more services as the likely outcome of interstate banking. They don't expect a better price on deposits, and they recognize but don't overly fear the threat of interstate banking to smaller institutions.

Consumers also differentiate interstate banking from other political issues, showing a clear bias against letting banks into new businesses. But the consumer responses reveal less opposition to other industries getting into financial services.

That distinction may reflect the traditional role of banks and thrifts in protecting the public's savings. The average consumer clearly values the federal guarantees that protect their deposits at banks and thrifts; awareness of thrift collapses in Ohio and Maryland only slightly deflates the public's overall confidence in the country's financial system.

Consumers also know enough to distinguish the backing of the federal government from the specific insurance reserves that provide the first line of defense for deposits — the funds seem sufficient to only half of the survey group, yet confidence in the system as a whole remains high.

But problems do threaten to erode that faith. Consumers harbor concerns that banker ethics don't live up to the public's expectations, and also feel the government could be tougher in keeping the institutions in line with regulations.

Other studies also suggest that the industry could lose its public franchise because of the confusion wrought by financial deregulation — particularly with the plethora of new products and terms that have come out of the industry.

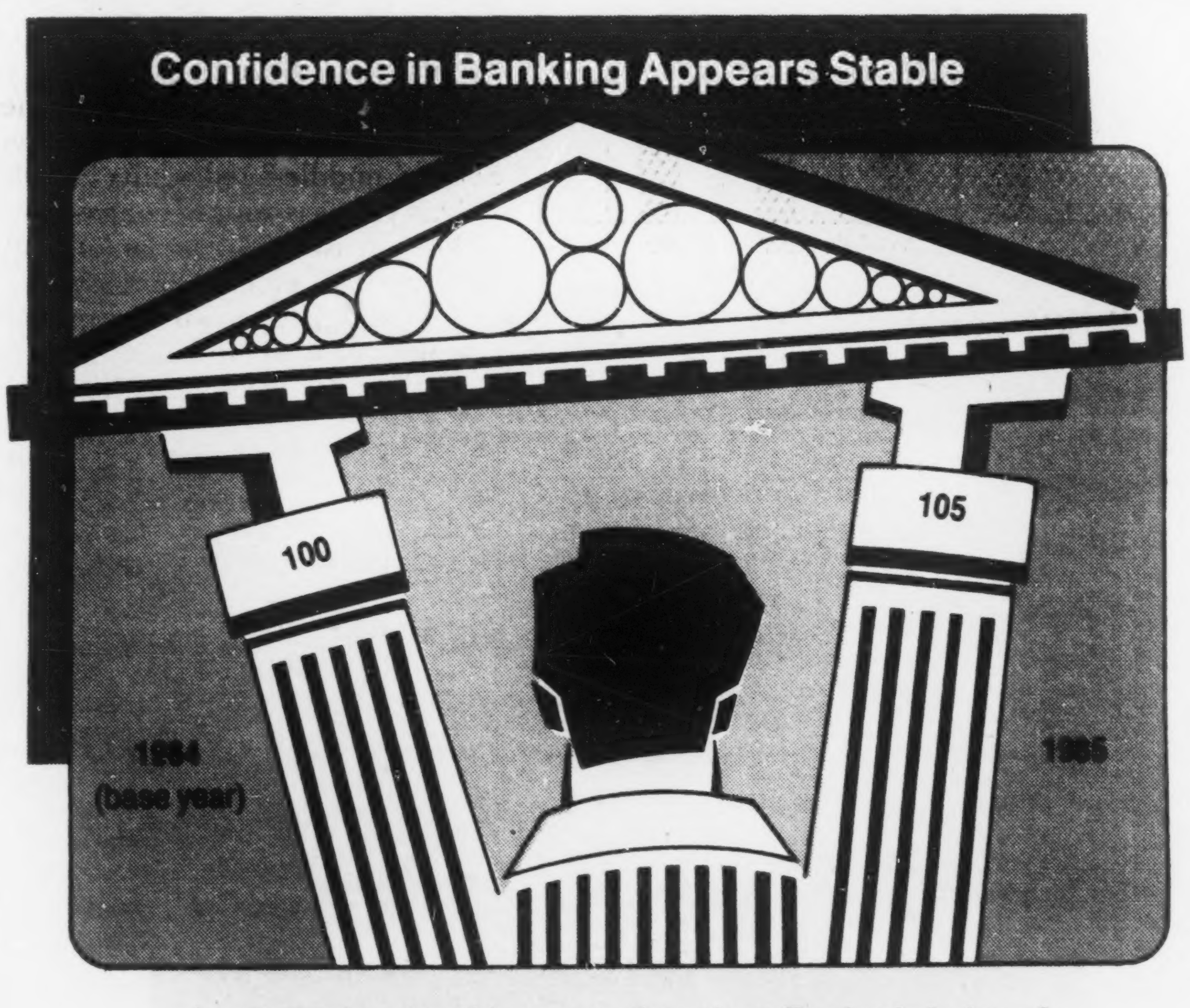
Without contradicting those conclusions, the *American Banker* study suggests that consumers at least know what they want — and that the public can, and will, determine the future design of the financial industry. ■

Mood Upbeat Despite Awareness of Troubles

Unshaken by rising bank failures and even the statewide thrift closings, American consumers quietly maintained their confidence in the nation's financial system during the past year, according to a nationwide study commissioned by the American Banker.

Consumer trust, in fact, appears slightly buoyed since the American Banker first sought to measure the public's faith in the U.S. financial system through a similar survey last year. That's despite ample awareness that more banks are in trouble as well as widespread concern that insurance funds may fail to protect deposits — two other findings in the survey conducted in late July.

Confidence in Banking Appears Stable



An upward nudge this year to American Banker's index of consumer confidence in the nation's financial system:

Bankers and regulators welcome the news of some stability in consumer confidence. But several observers voice disappointment that a sizable group of Americans, roughly a third, say their trust in financial institutions remains lower than a few years ago.

Any reprieve from rising consumer doubts, however — even if it were a gift that came with economic trends beyond the banks' control — seems like a cool splash for many bankers facing the heat of an industry in turmoil.

A gift it may be, as consumer confidence in deposit institutions must reflect the economic stability that Americans enjoyed over the past year, said Richard Curtin, who directs consumer attitude surveys for the University of Michigan's Institute for Social Research in Ann Arbor. "The fact the economy has been up for a couple of years has to have helped the banks and thrifts," he said.

Yet his university's survey of confidence in the economy is down slightly from the past year, probably because consumers see domestic growth as slowing, Mr. Curtin said. Thus, banks and thrifts apparently made some progress on their own — perhaps a sign that the public sees the industry successfully riding the waves of change, he said.

Consumer Confidence

Bankers and regulators largely echo that interpretation when considering the small rise over last year in positive responses to the American Banker's questions on confidence in the financial system. Key measures of public trust that were repeated in this year's survey rose an average of 5%, with the biggest shift coming in the group of consumers who express the utmost confidence in financial institutions.

Those responses came to three questions in the telephone survey conducted by Reichman Research Inc., a New York-based opinion research firm. Surveyors interviewed some 1,000 individuals nationwide.

The survey asked consumers to assess the health of the nation's financial system, to describe their own confidence in the security of American banking, and whether they think their confidence has strengthened or weakened over recent years.

Some correlation again appears this year between the level of public trust in banking and the level of satisfaction with banking services, another area probed in the consumer survey. Compared to consumers who say they've grown more satisfied with their principal bank over the past few years, people who say they are less satisfied with their principal bank today are twice as likely to say they are also less confident now than a few years ago about the industry's health.

"But when you stop and look at it, I think it's largely that nothing has really happened to the man on the street to shake his confidence in the financial system," said J. Charles Partee, a member of the Federal Reserve Board of Governors. "There are very few places, for example, where depositors have actually lost money during the past year, either temporarily or for good."

And most of those depositors were victims of the state-sponsored but privately controlled insurance funds that collapsed last spring in Ohio and Maryland. Those crises prompted depositors around the country to examine their money's protection; most bank and thrift executives reported a jump in inquiries about their deposit insurance.

Americans apparently appreciated the distinction between the state funds and federal deposit insurance, which they have been told carries the full backing of the federal government. "Federally insured institutions were able to distance themselves psychologically from the problems in Ohio and Maryland, even perhaps benefiting from those problems," said the University of Michigan's Mr. Curtin.

Indeed, as described by a middle-

How the Survey Was Conducted

The results of the *American Banker's* second annual survey on "How Consumer America Views the Changing Financial System" are based on telephone interviews conducted among a scientifically selected random cross section of the American public. The cross section consisted of 1,004 respondents.

Reichman Research, a marketing/opinion research firm, in collaboration with the *American Banker's* senior editors and reporter David LaGesse, developed the questionnaire for this survey. In addition, Reichman Research was solely responsible for the interviewing, as well as for the preliminary analysis of the survey data.

The sample was a stratified random digit-dial sample, which was so drawn that all telephone-owning households in the continental United States, listed and unlisted, had a theoretically known chance of being selected.

Heads of households, co-heads, and spouses of heads of households, 18 years of age and older, were eligible to be interviewed.

All interviewing was conducted between July 20 and 31, 1985. The typical interview lasted 19.8 minutes.

In this sample, prior to analysis, appropriate weighting was applied to correct any minor deviations in the sample from known population characteristics.

In reviewing the survey results, the reader should be aware that the expected sampling error for a sample consisting of 1,000 interviews is a plus or minus three percentage points. This "margin of error" applies to the total sample. Subgroups that consist of smaller sample sizes have greater margins of error.

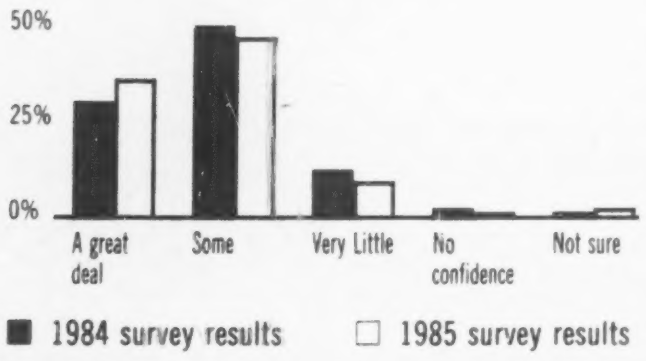
The same research firm conducted the *American Banker's* first consumer attitude survey in 1984 and another in 1983 on "How Corporate America Views the Changing Financial Services Industry."

aged woman in the South, "With the federal insurance behind the banks and savings and loans, they are as strong as our government."

Not that the thrift crises didn't shake the pillars of confidence in some areas, particularly the closing of some 71 thrifts in Ohio that began with the early March failure of Home State Savings Bank in Cincinnati. Residents of the North Central states, which include Ohio, clearly diluted the greater confidence in banking that was expressed in other regions.

Depth of consumer confidence also improves

Q: How much confidence do you personally have in the security of the nation's financial system today?



The Northeast appeared the most enthusiastic in renewing its trust in financial institutions. Observers note that the region suffered no widely publicized bank failures during the year, and even the lingering throes of savings banks in New York City eased somewhat with the year's lower interest rates.

Bad news about foreign loans also became less frequent for New York's money center banks, though the issue is not forgotten by consumers. Responding to an open-ended request to name the two or three key threats to banking safety, the public most frequently named overseas lending — pegged by nearly one in five respondents.

Loans with insufficient security also loom in the minds of consumers, as do high interest rates — both were named in about one-tenth of the responses. One woman in the Northeast explained herself in a good news/bad news fashion: She said banks are "charging such large interest rates that they must be making enough money to stay healthy."

The West and South revealed slight increases in confidence, roughly between the flat response of the North Central region and the buoyant response from the Northeast. The West was perhaps stymied by the huge losses announced by Bank of America and the Financial Corporation of America.

California newspapers also gave much publicity to the collapse of that state's thrift and loan insurance fund, a crisis that largely unfolded since last year's survey, said John Lane, a review examiner and specialist in consumer affairs for the Federal Deposit Insurance Corp. in San Francisco. Bank of America drew more bad publicity for its involvement in a securities scandal that rocked the secondary mortgage markets.

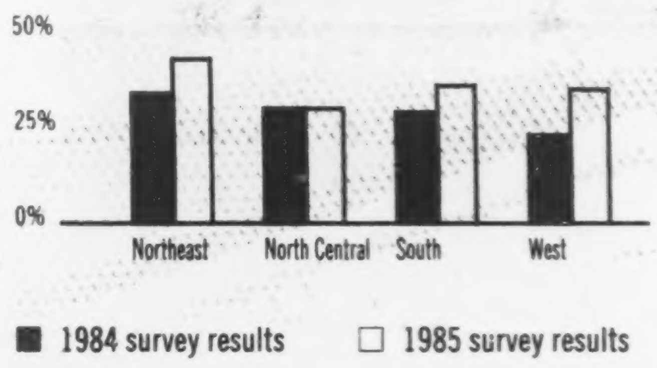
"We've also had a number of developers that were highfliers for a couple of years. Their problems are reflected in increasing bank and thrift failures in Southern California," he added.

The South, as well, has run into its share of highfliers, most notably E.S.M. Government Securities Inc., a securities trading firm based in Florida that collapsed last spring and led to Ohio's thrift crisis. Florida also has suffered because of the real estate losses of several of its thrifts.

Consumers apparently have heard the industry predictions that real estate losses will continue to spread among thrifts, as well as official projections that bank failures will continue to rise.

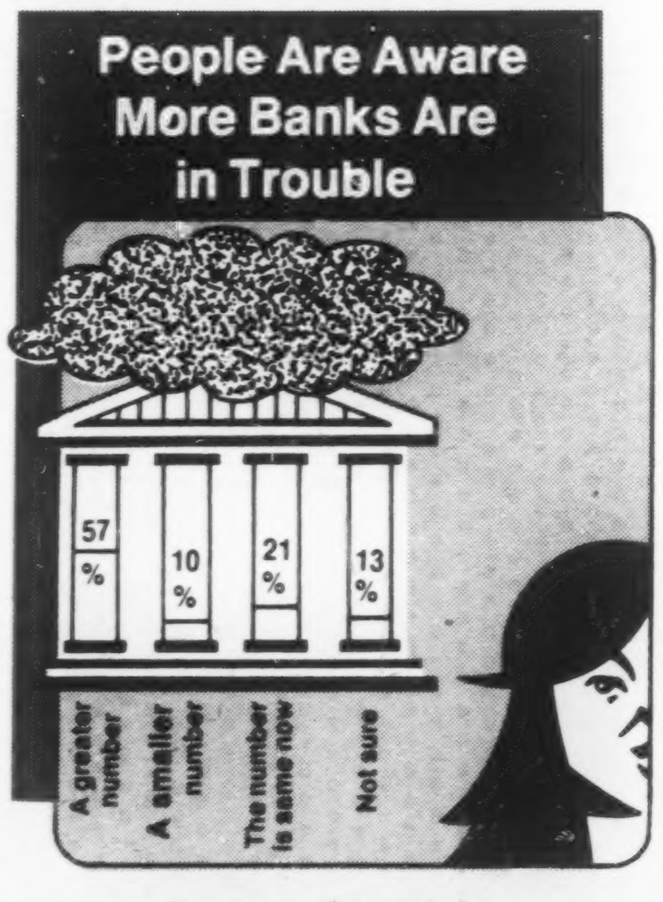
North Central states lag in voicing utmost confidence

Percent responding with "a great deal" when asked how much confidence they hold in nation's financial system.



"I'm glad people are aware. I'd rather tell people what we're expecting than have them surprised when the failures come," said William M. Isaac, outgoing FDIC chairman.

In January, Mr. Isaac predicted some 100 banks would fail before year's end, a prediction already realized with the 100th failure of the year last month.



Are more financial institutions facing serious problems in the 1980s than in previous decades?

But the FDIC chairman said that he for one isn't surprised that the highest bank failure rate since the Great Depression didn't appreciably erode public confidence last year.

"Consumers are seeing that we can handle more bank failures in an orderly fashion that preserves their deposits," Mr. Isaac said.

Indeed, the group that probably shudders first at the sign of bank failures gave the industry an encouraging sign: The elderly's expression of confidence in banking institutions jumped more in the past year than did other age groups. Consumers aged 55 years and older pulled themselves nearly even with the faith expressed by younger and middle-aged adults in 1985.

This year's response contrasts with a weaker trust in financial institutions held by the elderly in 1984, which clearly dragged down the overall assessment of banking health last year.

That could just be a reflection that older adults are getting acclimated to the turmoil in the banking industry, says Robert Gnaizda, an attorney in Claifornia who has represented many elderly clients in that state's thrift and loan crisis.

Those victims have largely lost faith in the financial system, he says. "Even though they may not be that many, you have to give more weight to the people who have suffered from bank and thrift closings" — their bitterness can spread and poison public opinion at large, says Mr. Gnaizda.

The elderly also voiced increased satisfaction with their main financial institutions, a pattern that officials at the American Bankers Association say they increasingly think is typical. "We find that a customer's satisfaction with his own bank or thrift can have a lot to do with how he feels about the financial system as a whole," said James G. Cairns Jr., last year's ABA president and chairman of Peoples National Bank of Washington in Seattle.

There seems to be at least one other tie between satisfaction and confidence in the 1985 study results. Wealthy households, those with annual incomes of more than $55,000, also helped lead the boost to overall faith in the financial system. As with the elderly, the biggest change among affluent consumers was a larger number that expressed the utmost confidence in financial institutions.

The study also revealed similar, more positive endorsements by the elderly and wealthy of the services at their principal institution. The implication could be that banks have improved service sufficiently for those groups to have earned a stronger endorsement of banking security, Mr. Cairns said.

Trust improved the most among the elderly

Percent responding positively when asked if they think the nation's financial system is currently healthy.

	1984	1985	Change
18-34 years old	69%	74%	+5 points
35-54 years old	68	76	+9 points
55 years & older	59	72	+13 points

Other researchers warn of the difficulty, however, in correlating personal satisfaction with consumer confidence in banking, because groups of generally negative people can skew the findings.

One way or the other, winning the utmost confidence of consumers often doesn't come easily. As a commercial bank customer from the South said: "I think if even one bank is in trouble, that is just reason to call the banking system fairly healthy instead of very healthy." ■

What Consumers Say About Nation's Financial System

> "The main problem is the large number of outstanding loans to foreign countries that can't pay them back. The federal government also is unsure how much power it wants to give to banks and how much freedom they need to succeed in the financial industry. The public has caught on to these two faults and is beginning to worry about how safe its money is...
>
> *— Young man from a middle-income household in North Central region*
>
> I think loans are easier to get and the system is slowly getting better. There are very few banks closing and interest rates are down. Things just seem to be looking better...
>
> *— Young woman from a middle-income household in the South*
>
> I feel that the government won't ever let things get too unhealthy...
>
> *— Middle-aged woman from an upper-income household in the South* "

To the Disappointment of Industry Leaders, View of Bankers' Integrity Falls Short

Bankers apparently have disappointed American consumers in not living up to the ethical standards that the public expects of its money managers, a research finding that has surprised and disappointed a number of industry leaders and regulators.

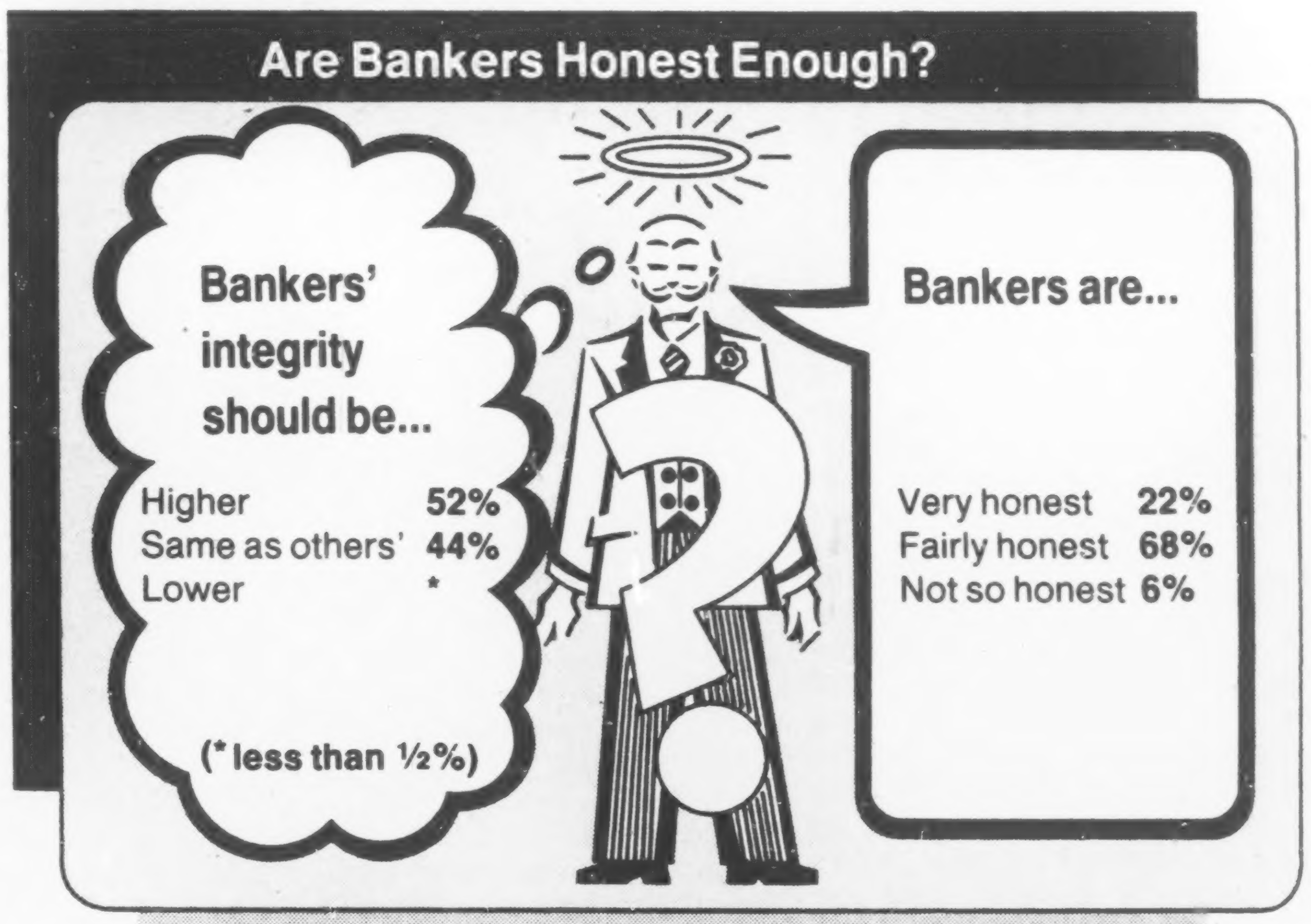
A little more than half of the consumers surveyed expect bankers to maintain higher standards of integrity than other business executives, but less than a quarter of the population thinks that bankers have proved themselves "very honest," according to the results of a nationwide study commissioned by the *American Banker*.

"I'm very surprised that consumers don't consider their bankers more honest than that," said James G. Cairns Jr., who is the outgoing president of the American Bankers Association and the president of the Peoples National Bank of Washington in Seattle.

"I think that figure used to be higher — we need to get it back to a higher level," he added.

Consumers don't seem to see fraud as rampant in the banking industry — nine out of ten see bankers as at least fairly honest. "But, in view of the finding that Americans think bankers should have higher standards of honesty and integrity than other business people, one wonders whether being 'fairly' honest is enough," said David Reichman, president of Reichman Research Inc., the opinion research firm that conducted the survey.

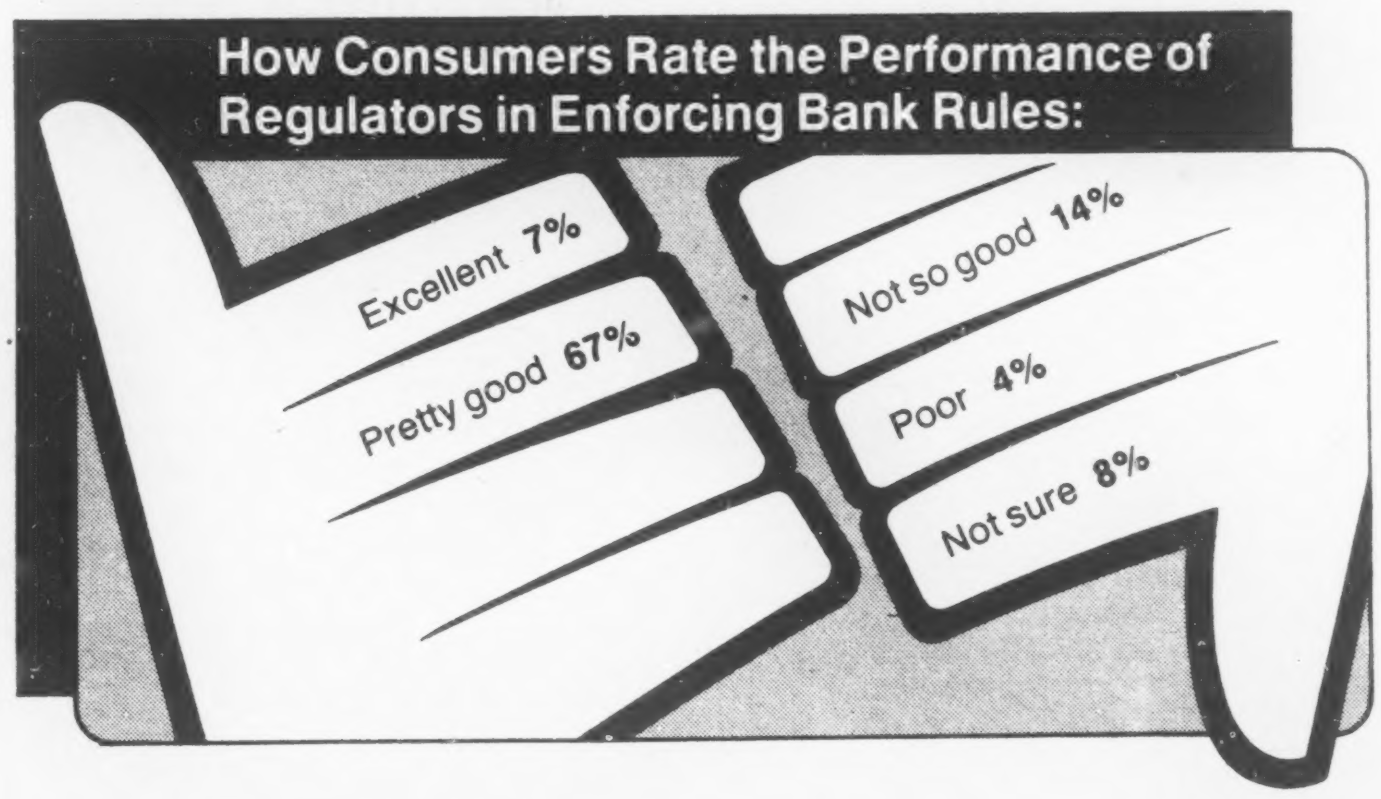
On a positive note from the same survey, consumers concluded, by a margin of nearly four to one, that the vast majority of banks and thrifts are well managed. But a strong public consensus also agreed that poor management stands as the most likely cause of serious problems at a financial institution.



Half the country feels banking requires extraordinary integrity, yet only one in four consumers thinks bankers are "very honest."

That apparent consensus runs counter to the experience of regulators, however. Historic experience shows that about half of bank failures have involved fraud — such as loans to insiders — or simple theft, said William M. Isaac, outgoing chairman of the Federal Deposit Insurance Corp.

But when asked, only one in ten consumers said dishonesty would likely be the main cause of trouble for a financial institution. This seems to suggest that, despite their voicing surprising mistrust of their bankers, the public may not fully understand the cost of fraud in banking and finance.



The public's criticism of bankers' honesty also may be unfairly inflated this year, said Donald F. Reid, compliance officer at Wells Fargo Bank, San Francisco.

"I'm disappointed at their reaction, but not really surprised," he said, noting that some banking crimes this year have received more national attention than similar crimes in the past.

The vigorous prosecution led to more bad press about banking ethics than has been seen for a while, if ever, Mr. Isaac said. He pointed to the stepped-up efforts of the federal government to force banks to comply with reporting requirements on cash transfers larger than $10,000.

The government has publicly accused a number of banks in recent months of failing to report large cash transfers, leading to allegations that some of bankers laundered money for organized crime. A case involving the First National Bank of Boston, probably most notable of the investigations that were revealed recently, cost the bank a guilty plea and a $500,000 fine.

Bankers also speculate on the possible effect of the scandal involving E.F. Hutton in which the securities firm pleaded guilty to federal charges that it defrauded banks of money. The brokerage admitted it conspired to bilk banks out of millions of dollars by manipulating the float that naturally occurs in corporate accounts.

Hutton, months after pleading guilty, continues to suffer from lingering publicity on the affair. While banks actually were Hutton's victims, the high visibility of white-collar crime in financial services probably added to the banks' own image problems, said Mr. Reid.

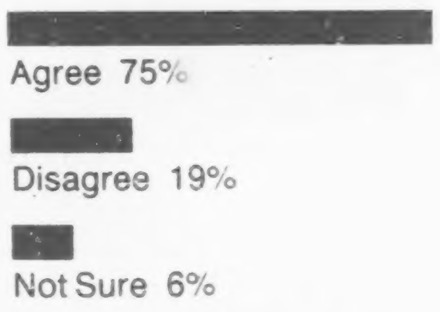
But it is not currency reporting violations and illegal check floating that cause financial institutions to fail. The fraud that brings down most depository institutions is often less spectacular, and usually earns only local press coverage. There are exceptions, of course, including the alleged fraud that last spring helped bring down Home State Savings Bank in Cincinnati.

Banker Honesty

Consumers nationwide generally hear much more about the fraud that earned institutions some profits, rather than about the crimes that brought down even nearby banks and thrifts.

"It's just becoming more and more clear that the banking industry itself must focus on some internal policing," said Clifford W. Stone, chairman of the Walnut Valley State Bank, an institution with $81 million assets in El Dorado, Kan., 30 miles from Wichita.

Q: Are the vast majority of banks and thrifts well managed?



"I'm afraid there is no increasing sensitivity to ethical questions in banking, though there should be," he said.

Some of the blame, Mr. Stone said, he places on the regulators for throwing banks into open competition with other industries for the consumer's financial business. Banks remain tightly controlled by government regulators, while their new competitors compete "completely unfettered," he added.

"The focus for so many bankers now is on staying alive, not necessarily on doing what is right."

Mr. Stone belongs to an industry task force, headed by Mr. Reid of Wells Fargo, that is revising a guidebook for banks that want to write their own ethical policies. Written ethical codes first began appearing in banks around 1970, and they get periodic attention from banks after major fraud investigations into banks are revealed, Mr. Stone explained.

"Actually, I'm just not that big on ethics manuals," he said. "You can write ethics manuals till your thumbs fall off, but it's the spirit of the issue that we've got to work on."

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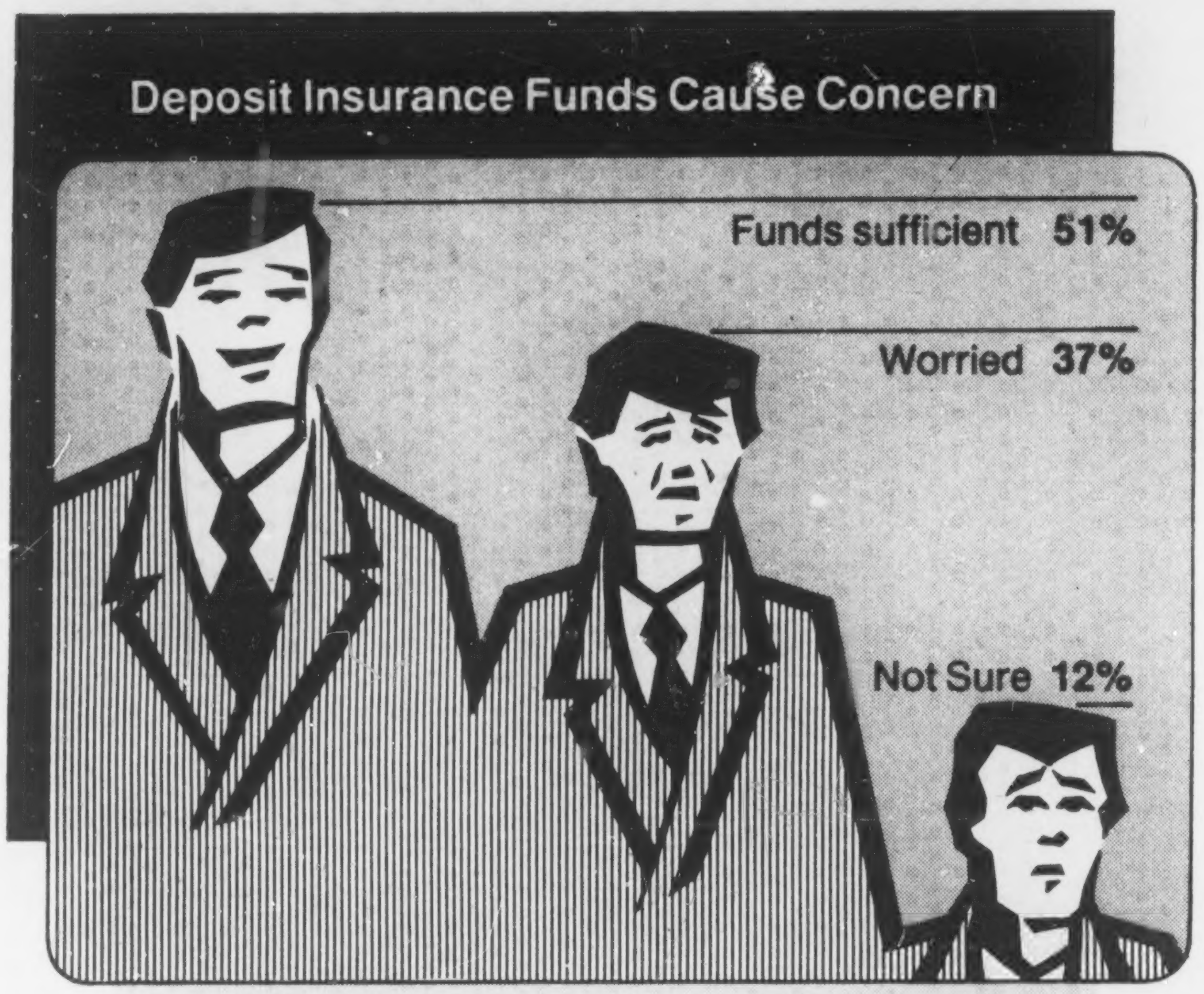
Public Worries About Adequacy of Federal Insurance Funds

More than a third of American consumers worry that the insurance funds protecting their deposits will prove inadequate, and nearly half the public would urge regulators to get tougher in their efforts to keep banks out of trouble, according to a study commissioned by the *American Banker.*

A large majority of consumers give regulators a good review for their work so far in keeping banks and thrifts in line, but they would like to see more frequent audits and critical appraisals of the investments that banks make with their savings.



Half the nation rests assured that insurance funds have enough money to protect deposits, while more than a third appears nervous.

Insurance Funds

Open-ended responses to one survey question indicate that consumers have little understanding of how regulators work with banks and thrifts. Those wanting regulators to take aggressive action were asked to suggest tactics, but most responses were similar to that of a young man from the West: "They should audit more carefully."

They already do, says John W. McIntyre, president of the Citizens and Southern National Bank, Atlanta. "We've seen a lot more enforcement actions against banks and thrifts, and the agencies are quicker to follow up with legal action, if necessary," he says.

A couple of the federal agencies that regulate thrifts and banks have also promised to hire additional examiners and beef up their reviews even more, he adds.

Regulators generally come under a little more criticism out West, according to the survey results. The share of westerners giving bank supervisors a positive review fell some seven percentage points off the national average, most of which came out of those who give regulators an "excellent" rating.

The West also worries more than the rest of the country about the adequacy of the insurance funds that protect deposits, with westerners evenly divided as to whether the reserves are large enough. That higher anxiety may reflect the open talk of needing more money for the Federal Savings and Loan Insurance Corp., whose members play such a pivotal role in the housing industry that is so important to the economy of the Southwest.

"The various proposals that have been considered to shore up FSLIC have received wide discussion out here," says Donald L. Alexander, vice president of the Federal Home Loan Bank of San Francisco.

He also notes that thrift failures have dramatically increased during the past year in the region covered by the San Francisco office — 11 thrift failures so far this year, compared with only a couple in the same period a year ago.

The collapse last year of the fund that insured smaller, state-chartered thrift and loans in California also must weigh on consumers' minds, says John Lane, a review examiner for the Federal Deposit Insurance Corp. in San Francisco.

Similar to what happened to state-sponsored funds in Ohio and Maryland, California's Legislature eventually stepped in and arranged a refund to the depositors of the failed institutions. But the legislative debate dragged on for nearly a year, and only half of the remaining thrift and loans in California have qualified for federal insurance, Mr. Lane says.

The Northeast, whose residents display the most optimism in assessing many aspects of the banking industry, also voiced the most confidence about the adequacy of deposit insurance. The lower plateau maintained by interest rates over the past year helped ease concerns over foreign loans as well as helping to improve earnings at New York's savings banks, probably giving the Northeast a boost in optimism over other regions, Mr. Lane says.

Discussions about FSLIC, as well the state-sponsored funds that collapsed in the three states, must have dominated the thinking of consumers concerned about the adequacy of deposit insurance, says outgoing FDIC Chairman William M. Isaac. He argues that consumer confidence in the FDIC should have grown as the reserves grew, which he says are up 70% compared with five years ago.

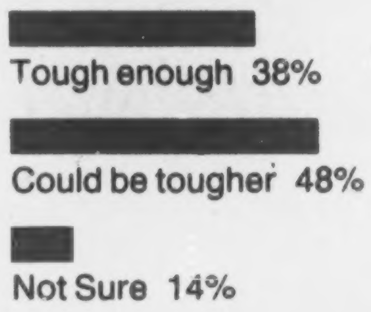
But consumers increasingly tend to lump all institutions together, particularly as deregulation helps blur the distinctions, says Mr. McIntyre of Citizens and Southern. "They've all become banks in the eyes of the consumer."

Luckily, the public nonetheless seems able to look past their concerns about reserves to the government backing of both the FSLIC and the FDIC, says Mr. Lane of the FDIC. "They just want to know if its federally insured -— even the most troubled of the federal thrifts have no trouble getting insured deposits," he says.

That seems reflected in the overall stability of consumer confidence in the nation's financial system, addressed in another section of the *American Banker* study. But concerns about deposit insurance clearly cut into consumer confidence.

According to the survey, consumers who worry about the reserves that protect their deposits are twice as likely to express little or no confidence in the nation's financial institutions.

Q: Could regulators be tougher in enforcing bank rules?



A young woman from the North Central region, for example, explains why she has lost some confidence in banks and thrifts: "They have defaulted on loans and have no money to back them up." ■

What Consumers Say About Regulators

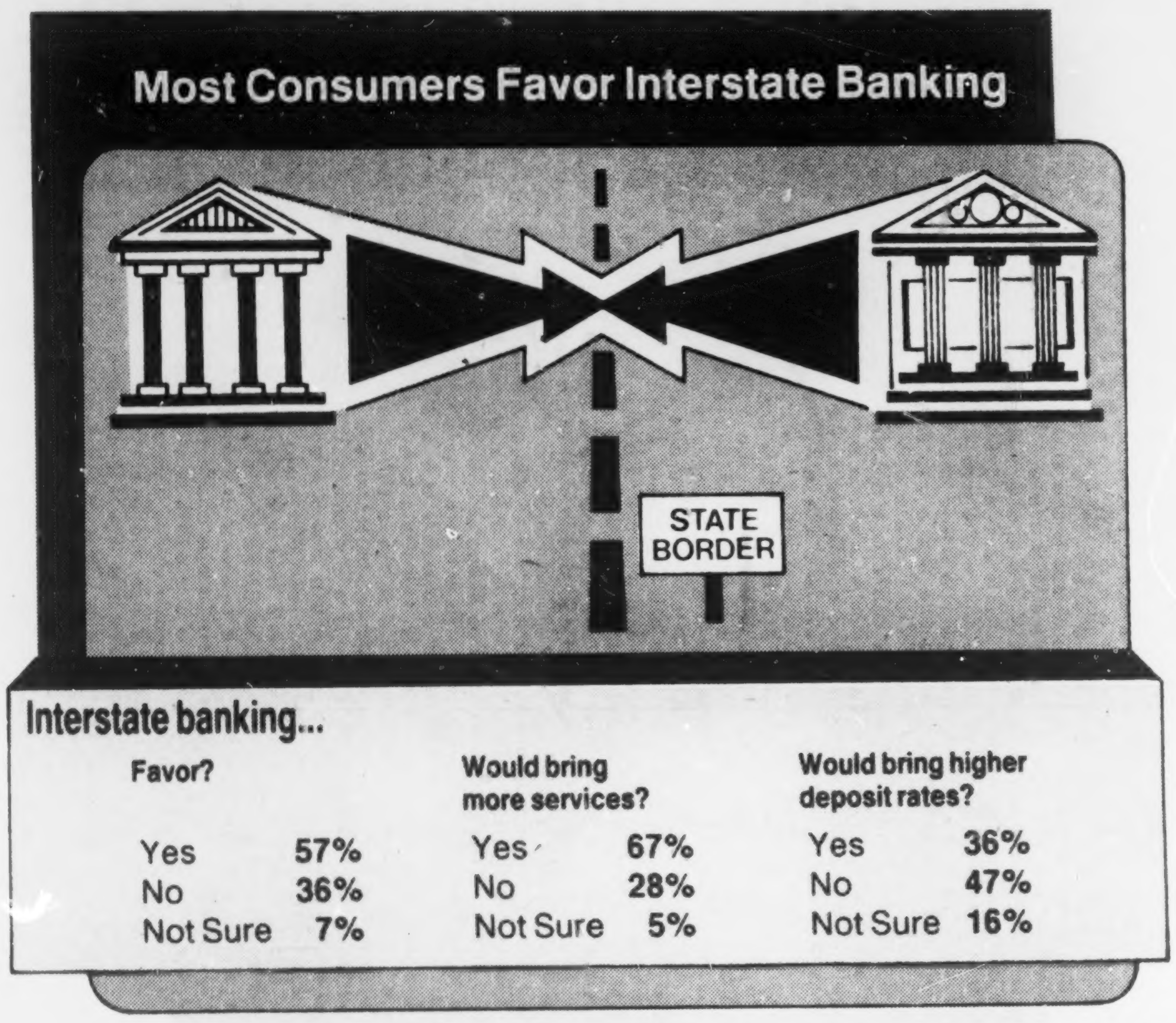
> On a state level, they should be more strict and not bend the rules; a lot of times they just turn their heads...
>
> — *Young man from an upper middle-income household in the Northeast*
>
> They could keep a closer eye on the institutions by having an audit every six months...
>
> — *Middle-aged man from an upper middle-income household in the South*
>
> They should have bigger penalties for wrongdoings...
>
> — *Young man from an upper-income household in the South*

Most Consumers Welcome Out-of-State Banks

Four in 10 Say Outsiders Could Match Local Service; Threat Seen to Small Firms

Bring on the big banks, consumers seem to say, as long as bankers can apply the gospel of convenience to cash transactions like McDonald's did to hamburgers.

A majority of American consumers say they welcome an invasion of their home turf by the financial institutions that stand poised on their state borders. Eager for better service and more convenience, a sizable minority also say they would likely open an account at the local outpost of an out-of-state bank, according to a nationwide study commissioned by the *American Banker*.


Most Consumers Favor Interstate Banking
STATE BORDER

Interstate banking...

Favor?		Would bring more services?		Would bring higher deposit rates?	
Yes	57%	Yes	67%	Yes	36%
No	36%	No	28%	No	47%
Not Sure	7%	Not Sure	5%	Not Sure	16%

They welcome the convenience, but don't think interstate banking will put any more money in their pockets.

Interstate Banking

But there's less agreement that the big banks will beat local banks' prices; about half the survey group says it doesn't think the competition from interstate banks will raise the rates on their deposits.

That aside, supporters of interstate banking laws greeted the survey findings as support for opening the interstate gates. "I think those results sound very hospitable to the concept, especially if that many people are ready to open accounts at the interstate branches," said John D. Hawke Jr., an attorney in Washington.

"It sounds as if there might be a much larger shift in business than people expected with interstate branches," he added.

Groups that oppose interstate banking, however, argue that measures of public support cannot be based on consumer reaction to the concept of allowing banks to cross state lines. "If you go out on the street and ask if they favor allowing a new facility to open in their area, you can bet everyone will say yes," says Kenneth A. Guenther, executive director of the Independent Bankers Association of America.

"If you add that the new facility may be the only institution around after about 10 years, you'll get a much different response," he added.

The stakes could be high in the debate, which threatens to heat up in state legislatures and on Capitol Hill after the U.S. Supreme Court earlier this year upheld the pacts that limit interstate branching to reciprocal state ageements.

Mr. Guenther's group has lobbied hard against interstate banking because its members — smaller community banks — fear that they face unfair competition from the industry giants. That fear appears all the more threatening alongside the government's unofficial policy of not allowing a score of the largest banks to fail because of the fallout that might blow across the financial industry, Mr. Guenther said.

Consumers, too, perceive a threat to the smaller banks in their community from interstate banking, according to the study that was prepared for the *American Banker* by Reichman Research Inc.

A two-thirds consensus agreed that allowing large, out-of-state banks to expand into their communities would mean that local banks will not be able to compete. The mere thought of bigger banks taking over evokes some long-standing fears: "Too much power in too few hands," says a young consumer from the Northeast.

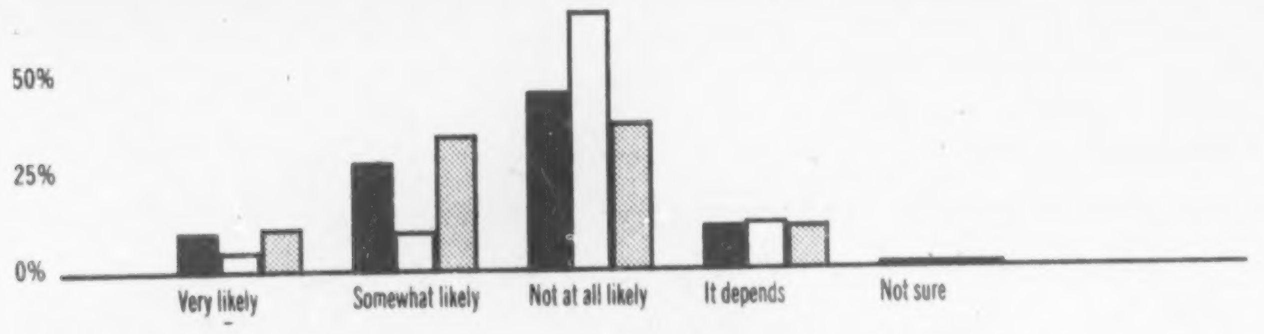
When asked to explain their opposition to interstate banking, about one-in-seven respondents cite their distaste for big banks.

But the rest of the public expresses mixed feelings on the importance of protecting smaller institutions. Nearly half of those who predict the demise of the smaller banks, for example, still say they favor interstate banking.

That's even though a comparable number agree that an out-of-state bank can never serve customers as well as those locally owned and operated. Four in ten consumers disagree with that and say that national franchises can provide the same personal attention that the hometown bank provides.

Elderly resist interstate banking, but the wealthy welcome it

Q. Would you open an account at the local branch of an out-of-state bank?



■ Total public ☐ 55 years and older ▨ $50,000-plus annual income

It is the elderly, those at least 55 years old, who feel most strongly about smaller banks. About two-thirds of older customers agree that the local banks cannot be replaced by out-of-state institutions. In contrast, wealthier households seem less concerned about preserving the smaller institution; better than half think that big banks can provide the same service.

Keep in mind the trend of larger banks to limit personal services on smaller accounts. "That's something that started on the East Coast, but it's carried out now to the West Coast," says John Lane, a review examiner and consumer specialist for the Federal Deposit Insurance Corp. in San Francisco.

That pattern of responses from the elderly and upper-income customers remains consistent throughout a series of scenarios described in the survey. The elderly generally resist the concept of interstate banking, while upper-income respondents welcome it enthusiastically.

Conversely, young adults are slightly more enthusiastic about interstate banking than the norm, and lower-income respondents are a little less in favor of interstate banking than the general public.

Those older and wealthier consumers do show near agreement on two issues related to interstate banking. They agree that small banks might not survive the weight of interstate competition, and both are fairly skeptical that interstate banks would bring higher rates on deposits.

Consumers across the board, in fact, seem to agree that interstate competition probably won't much affect the rates on their deposits.

"Most savers have small accounts and usually think in terms of passbook accounts, for example. Those probably won't change much with competition," said Mr. Hawke.

Rates on larger deposits, for which banks and thrifts compete more fiercely, would surely rise with the removal of interstate barriers, said William M. Isaac, former chairman of the Federal Deposit Insurance Corp. and a supporter of interstate banking.

Consumers largely agree, however, that competition fostered by interstate banking would lead to more banking convenience. Accessibility outpaced all other advantages as the reason most often cited as behind their support for interstate banking, as described in answers to open-ended questions.

"They should branch out and broaden their ability to serve us," says a middle-aged man from a middle-income household in the South. "There should be no hindrance by government control," he adds.

In their open-ended responses, consumers spoke against government controls on interstate branching much more than they called for them. Nearly a quarter of the spontaneous answers mentioned that the banks had every right to cross state lines or that it's not a place for government control.

But nearly half of these same consumers are calling for tougher regulation of banks, and only a third support expanded powers for banks. The issue also divides those who oppose new powers for banks, with nearly as many of that group favoring interstate banking as those who oppose it.

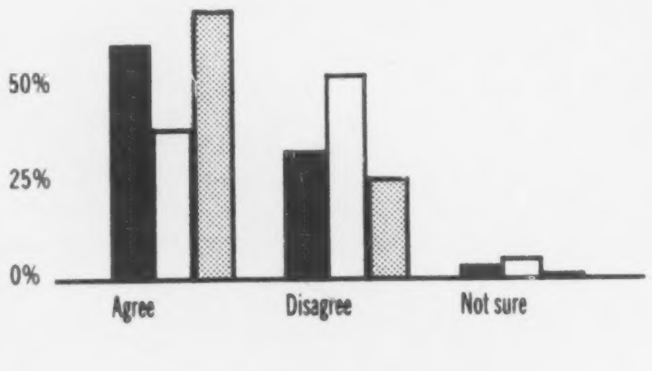
Some observers argue that interstate banking ranks among the many arcane issues facing a complicated industry, and that consumers can't be well informed enough to offer strong opinions. The issue may have its subtle sides, but if it comes alive in an area, "it usually gets front-page headlines," says Mr. Guenther.

That still doesn't mean the public really cares, says John W. McIntyre, president of Citizens and Southern National Bank, Atlanta. "The press and corporate customers have reacted vigorously, but I think consumers have

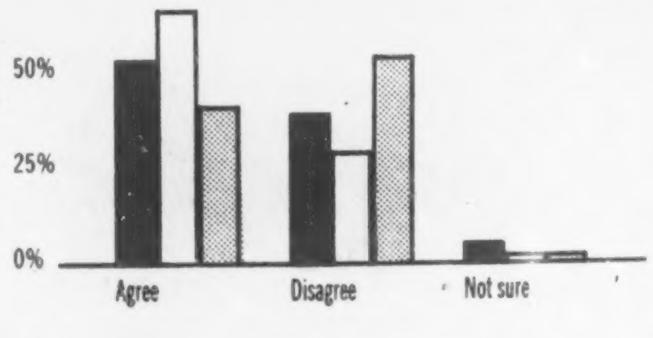
Continued on Page 7

Elderly fear loss of small banks more than wealthy

Small local banks wouldn't be able to compete with interstate banking.



Big banks can never take the place of local banks for customer service.



■ Total public ☐ 55 years and older
▨ $50,000-plus annual income

Mail and Phone Operations Rev Up Banks' Interstate Business

Outside the fanfare of the battles over allowing the marble columns of a bank's branches to straddle state lines, many financial institutions have quietly built interstate operations through the mail, telephone, and electronic communications.

Nearly one in 10 Americans surveyed in a study commissioned by the *American Banker* already fancies himself as an interstate financial customer.

Interstate Banking

But that number is unquestionably low considering the millions of credit card accounts already extended by lenders to distant customers, bankers say. Many consumers with those charge cards simply don't realize they've entered the interstate era, a fact criticized by some banking leaders who say their industry is too shy to tout the advantages of its nontraditional accounts.

"We get so caught up in our own business that we forget that people don't understand all that is happening and what we want to happen," says Clifford W. Stone, chairman of Walnut Valley National Bank, El Dorado, Kan.

The number also is growing, says Robert Heady, publisher of *Bank Rate Monitor*, a publication that describes account offerings at banks and thrifts across the country. He says the number of people interested in long-distance banking services continues to increase, "judging from the continuing growth of interest in our publication."

Of the consumers who know of their interstate accounts, upper-income consumers outnumber lower-income customers five to one, and patrons of brokerage firms and mutual funds appear to use their interstate operations more frequently. The small sample of active interstate customers, though, and the apparent underrepresentation of credit card accounts, make these conclusions tentative.

Almost half of those customers send their savings through the mail, with checking accounts coming in a close second and credit cards cited as the third most common type of interstate account.

Banking by mail dominates their methods of communication, with six out of 10 interstate accounts usually taken care of through correspondence. Postbox service also seems a little more popular in the North Central region of the country than in other areas.

Telephones commonly service another quarter of the interstate accounts cited by the survey respondents. Women seem to like banking by mail a little better than men, who conduct more of their interstate banking business by phone.

A little more than 1% of those surveyed also report that they've used one of the newest innovations in banking services — the national and regional networks of automated teller machines that allow long-distance transactions through electronic communications.

In assessing their dealings with distant institutions, the interstate customers give the same rating that they do for their principal institutions — 95% say they are at least somewhat satisfied with the service they receive.

None of the other interstate services have crept in so unobtrusively as to escape the consumer's eye as the millions of credit card customers who send their monthly payment to a bank in another state. Officials at Visa International, for example, estimate that at least a quarter of the company's 60 million cardholders get their credit from a bank in another state.

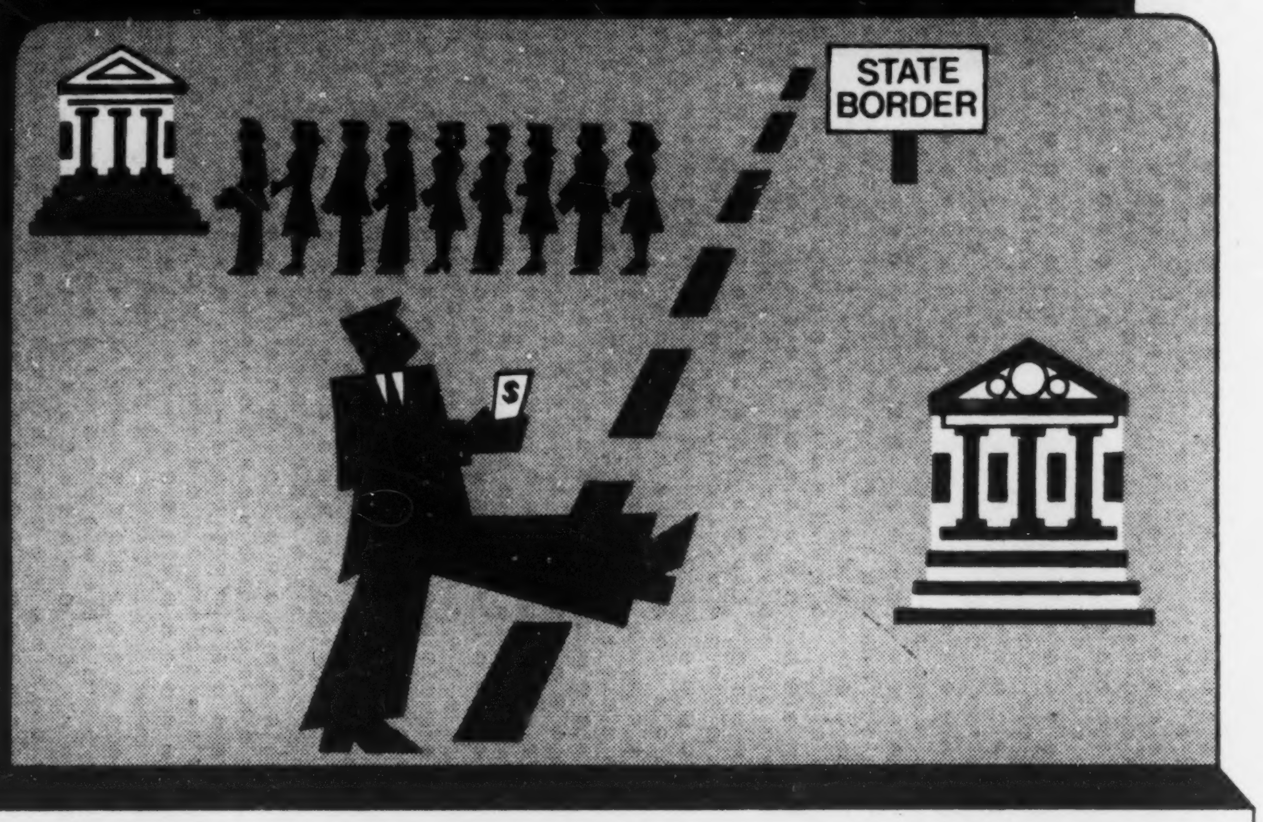
They alone would outnumber the 8% of adult consumers who say they know they have an interstate banking relationship, according to the survey results.

"It's just that so many people don't even realize where the credit is coming from. They just know they have a Visa card," said Richard Rossi, a spokesman for Visa at the company's headquarters in California.

That fact brings to mind the critics of the low-key strategy that commercial banks have largely pursued in seeking new powers, including interstate branching. "The banking industry just hasn't done a good job in pointing out the advantages that the public would enjoy if the banks were freed from many of their restrictions," says C.T. Conover, former Comptroller of the Currency and a strong advocate of banking deregulation.

Mr. Stone of Walnut Stone says he has lobbied a number of banking trade groups to start buying "advocacy advertising" to sell the industry's message. "I've gotten nowhere in all these years, not with my local association, the state association, or national groups," he says. ■

Nearly One in Ten Americans Already Use Banks Across State Lines



Maintain account across state lines?		What kind of interstate accounts				Have used ATM in different part of country?	
Yes	8%	Savings	46%	Money market	10%	Yes	1.4%
		Checking	41%	CD	8%		
		Charge Card	24%	Brokerage	4%		
		Loan	15%				

Savings and checking accounts attract the most interstate business, with credit cards a distant third.

What Consumers Say About Interstate Banking

"I feel they need to diversify their interests. Banks would become healthier if they branched out; they could make more money...

— Middle-aged man from an upper-income household in the South.

I think banks should be free to be interstate. Why restrict them to one state, particularly if they're federally insured?

— Elderly woman from an upper-income household in the West."

Continued from Page 6

yawned about interstate banking."

But a yawn isn't necessarily discouraging for interstate supporters, judging from the many more consumers who mention that they see no reason to oppose it as compared to the far fewer who say they see no reason to support cross-border branching.

Besides, a few respondents note, many banks are breaching the gaps anyway. "The laws aren't effective. There should be free competition," says a young man from an upper-income household in the South.

The South lends the strongest geographical support to interstate banking, though only five percentage points more people in that group answered affirmatively than in the total survey group. But it's much stronger there than than in the North Central states, where interstate banking earned only half the surveyed group's support.

Residents who roam the already franchise-dominated byways of American suburbs also show a little more welcome for the out-of-state banker than do urban and small-town dwellers.

Dear Reader,
How Are We Doing?

The American Banker wants very much to provide you with information that is useful to you in managing your institutions. Would you take a moment to give us some feedback on the new survey, **How Consumer America Views the Changing Financial System.** Please return this questionnaire to William Zimmerman, Editor, American Banker, One State Street Plaza, New York, N.Y. 10004-1549 (212) 943-5712.

(1.) How useful was the information in this consumer survey?

(A) Very Useful ☐
(B) Useful ☐
(C) Not Useful ☐

(2.) What do you like **best** about this survey?

____

____

(3.) What do you like **least** about this survey?

____

____

(4.) What themes or topics would you like to see explored in future surveys?

____

____

Name (optional)____________________
Title____________________
Company____________________
Address____________________
Phone____________________

Banks Improve Public Rating

Poll Finds More Customers Are Satisfied; Reason Unclear

Commercial banks apparently have made real progress in satisfying their customers, though nobody seems to know for sure why.

Banks narrowed much of the gap that existed last year between the level of satisfaction expressed by their customers and the satisfaction level of customers of thrifts and credit unions, as measured by the second study commissioned by the *American Banker* of public attitudes toward banking and financial services.

Customer Satisfaction

But credit unions remain the most effective in pleasing their customers, having earned a "very satisfied" nod from seven out of 10 credit union members in 1985, the same as last year. When both "fairly satisfied" and "very satisfied" opinions are included, almost all institutions come out with a positive rating in the 95% range; the distinctions seem to be in how many are very satisfied.

Consumers rate the safety of their money when deposited in the following:

Their principal financial institution	86.5
Commercial banks	78.5
Credit unions	77.1
Savings banks	76.8
Savings and loans	73.2
Mutual/money market funds	72.1
Insurance companies	71.3
Brokerage firms	64.4

(0=lowest, 100=highest; figures are mean average of responses)

Banks still fell short of credit unions in that sense, with only about two-thirds of bank customers giving their institution the top rating. But it that's a big improvement over 1984, when a little more than one consumer in two pegged the service at commercial banks as very satisfying.

"It's a significant jump — I guess it's possible that banks were trying harder over the last year or two," says Stephen Brobeck, executive director of the Consumer Federation of America. He cites the focus that his and other consumer groups have given to banking in recent years, as deregulation disrupted the market and often baffled the public.

Banks seemed to race after new opportunities and neglected their traditional business with consumers, Mr. Brobeck says. "But with the pressure from consumer groups and the press, I think banks became aware a year or two ago that they were losing customers from middle America," he adds.

Consumers seem more pleased with other players in the financial markets, as well, with an increase of five percentage points among all those surveyed who say they are very satisfied with their principal institution. Some of that may simply reflect overall satisfaction among consumers with the country's stable economy, but it is nonetheless a boon for marketers of financial services.

"When people feel good about the economic conditions, it clearly translates to their financial institution," says John W. McIntyre, president of Citizens and Southern National Bank in Atlanta.

The use of electronics in banks, such as automated teller machines, has greatly increased in the past year and may explain some of the improved customer satisfaction, says James G. Cairns, who is stepping down as president of the American Bankers Association.

He also notes that banks are just in the beginning stages with electronics. "Point-of-sale systems are just breaking and will cause electronics to have a major impact on customer convenience in the next couple of years," says Mr. Cairns, president of Peoples National Bank of Washington in Seattle.

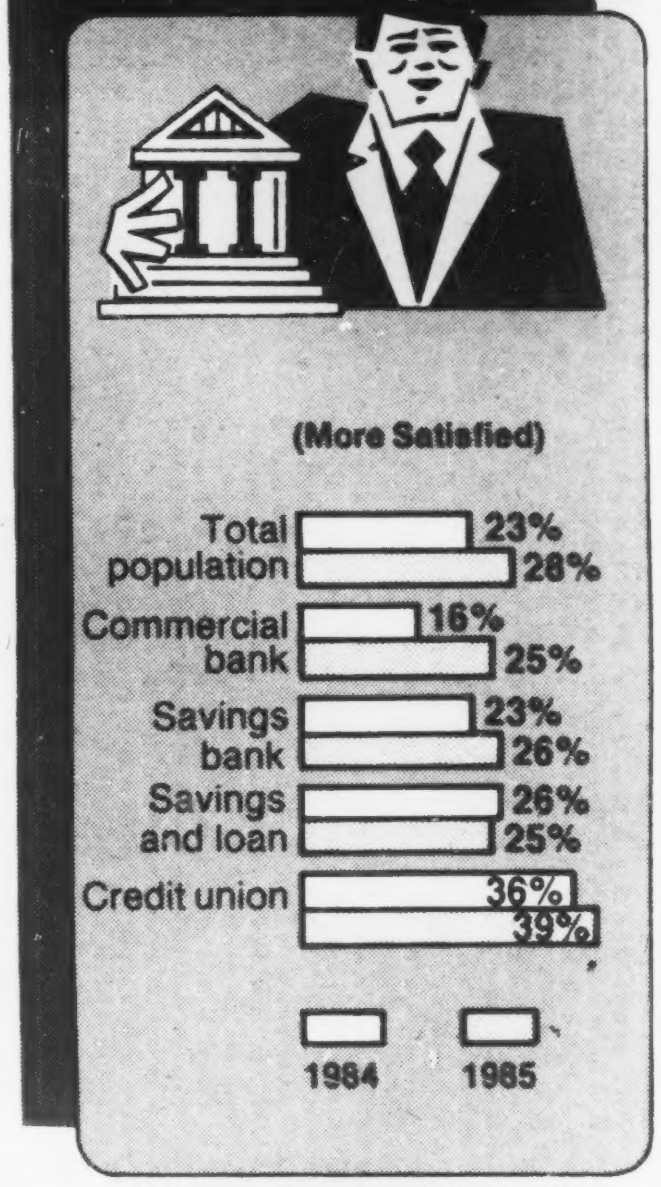
Others point to the the growing concerns about deposit insurance, prompted both by the collapse of private funds in Ohio and Maryland and questions about the Federal Savings and Loan Insurance Corp. Those concerns may have helped distinguish commercial banks in the minds of the public, says Joseph "Jake" Lewis, an aide to Rep. Fernand J. St Germain, chairman of the House Banking Committee.

"Banks so far seem to have best managed to weather a prolonged period of concern about the financial industry," he says.

Some of that impression might be gleaned from ratings offered by consumers on how well they expect different institutions to protect their money. After giving their principal financial institution the highest rating, consumers as a whole rated commercial banks the safest place for their money.

The survey responses rated credit unions as the second safest depository, with savings banks close behind and savings and loans a few more points down.

Commercial Banks Show Most Progress in Better Satisfying Their Customers



Are you more satisfied with your principal financial institution as compared to a few years ago?

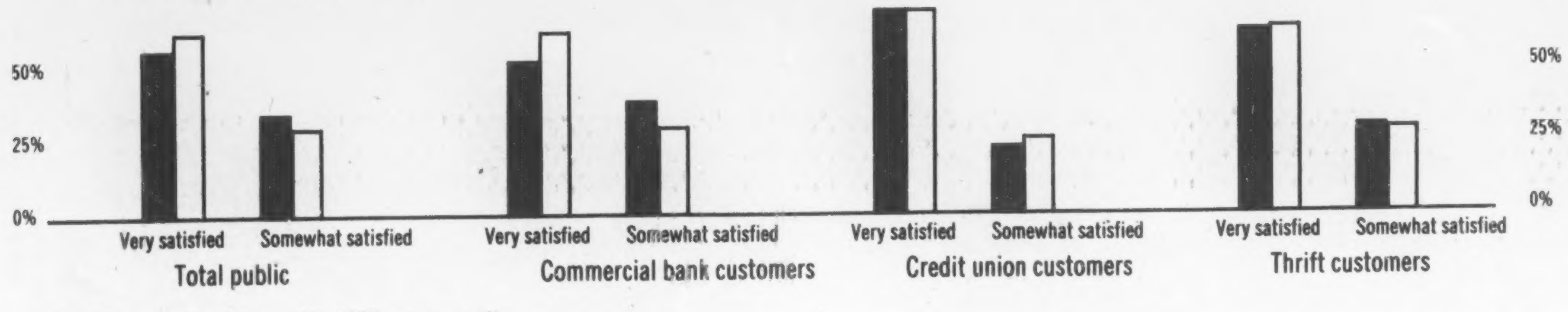
Beyond the safety issue, it seems unclear why commercial banks did better this year than in 1984 on customer satisfaction. "We've seen some efforts to respond to consumer demands out this way, but I don't think it's been overwhelming," says John Lane, a San Francisco-based review examiner and specialist in consumer affairs for the Federal Deposit Insurance Corp.

In looking at financial institutions as a whole, younger adults changed little in their overall impression of how well they are served. But middle-aged and older adults moved significantly from being somewhat satisfied to very satisfied. Some 64% of the elderly reported being very satisfied with financial institutions in 1984, and that figure jumped to 75% this year; adults from 35 to 54 who said they are very satisfied jumped from 55% last year to 67% in 1985.

Improvements in satisfaction were close to the average across different income levels, though minorities showed a jump in those very satisfied from 52% to 63%. Households with more than two residents also showed an unusual jump in satisfaction, from 58% very satisfied last year to 71% this year. ■

Commercial banks see a jump in very satisfied customers

Q: How satisfied are you with your principal financial institution?



'Supermarkets' Gain as Traditional Institutions Slip

Supermarket shopping for financial services may have made slight headway with consumers in the past year, according to a study of consumer attitudes toward banking commissioned by the *American Banker*.

Compared with last year's survey of the same institutions, each type of financial company apparently lost some market penetration as consumers reduced the average number of accounts they hold from just over three each to just under three. Savings banks and insurance companies lost the largest share of their 1984 market penetration, with commercial banks also losing a number of their less loyal customers.

Customer Satisfaction

The trend may reflect some success for those financial institutions that want to tout themselves as supermarkets of services, but the concept will never spell the end for the smaller and specialized institution, says Richard Curtin, who directs consumer attitude surveys for the University of Michigan's Institute for Social Research in Ann Arbor.

"Just look at food supermarkets; their rise did not kill off the specialty stores," he says, adding that there will always be niches for specialty shops in financial services.

Each kind of financial firm did retain most of their core customers, that is, the people who named each institution as their principal banking facility.

Principal Financial Institution

	1984	1985
Commercial bank	40%	42%
Savings and loan	18	18
Savings bank	14	13
Credit union	14	13
Brokerage firm	2	3
Insurance company	3	2
Mutual or money market fund	3	2
Finance company	1	2
None	3	2
Not sure	2	2

Those results suggest that the slight changes noted in the use of financial institutions do not translate into any major shifts of more loyal customers, says Molly Totoro, project director of the consumer survey for Reichman Research Inc.

Commercial banks apparently gained a point or two in their market share of solid core customers in 1985, while thrifts and credit unions each had slightly fewer consumers name them as their principal institution, the survey results show.

More subtle shifts in market shares may reflect events in a tumultuous year for banking and financial services. An example is the rate war that raged late last summer for consumer deposits in New York City, a war in which commercial banks fired the first salvo and held the high ground throughout.

"It was tough on us; most of the city's savings banks struggled to match the rates that were being offered by the big banks," recalls Austin S. Murphy, chairman of the East River Savings Bank, New York.

Couple the rate war with the commercial banks' focus on affluent consumers, and much of the banks' small gain in market share of core customers came from households with annual incomes of better than $50,000. Some four in ten of those upper-income customers called a commercial bank their principal financial institution in 1984, a number that grew by half this year to about six in ten.

Most of those new customers apparently came from the Northeast, where only a third of the respondents named commercial banks as their principal provider of financial services in 1984. That increased to four in ten in the 1985 survey.

The data on a breakdown of the market share of institutions other than commercial banks, thrifts, and credit unions may be misleading because of the small sampling in the survey. But the data reflect that fewer affluent customers this year named mutual funds, credit unions, and savings and loans as their principal institution.

The impact of other news may help explain some of the loss of secondary customers by thrifts. Much of that loss came in the North Central region of the country, which includes Ohio and was dominated by that state's thrift crisis of last spring. Home State Savings Bank, a Cincinnati thrift, set off the panic after suffering huge losses from the collapse of an obscure government securities dealer in Florida.

Credit unions were the only savings institution in the North Central region to gain some market share over 1984, but it was a small increase in customers who say they maintain accounts there. The unions picked up two points of market share there, while banks lost nine points, and savings banks 17 points. Insurance companies lost nine percentage points of the customers who said they maintained banking relationships there in 1984.

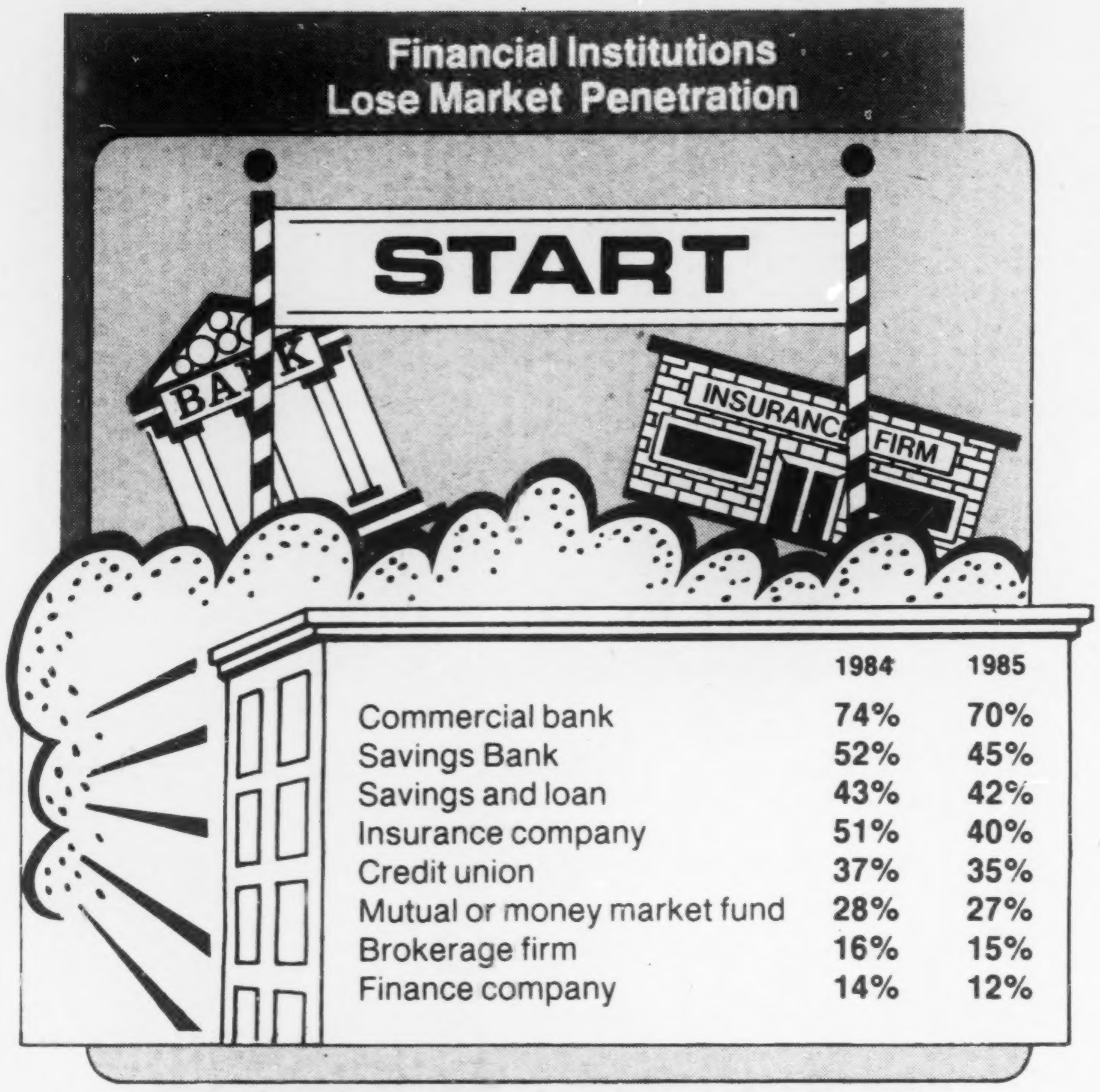
Similar shifts occurred with consumers in the North Central region in naming their principal institution. Credit unions remained steady, while thrifts and commercial banks each lost some core customers.

For the nation as a whole, savings banks also lost a notable share of their hold on urban markets in the number of customers naming them as their principal institution, from 17% in 1984 to 12% in 1985. Savings banks also lost a comparable share of minorities and the elderly as account holders.

The elderly proved somewhat fickle this year, with credit unions losing half of their older account holders who considered the unions their principal place for banking. Savings and loans also lost a few elderly customers, according to the survey data.

The loss of customers by insurance companies appeared more consistent across geographical areas, ages, and income levels. The losses cost the insurers an average of about one-fifth of the consumers who said they maintained accounts with insurance companies.

But in core customers — those who call insurance companies their primary banking institution — the industry did manage to retain most of their small share.



Financial Institutions Lose Market Penetration

	1984	1985
Commercial bank	74%	70%
Savings Bank	52%	45%
Savings and loan	43%	42%
Insurance company	51%	40%
Credit union	37%	35%
Mutual or money market fund	28%	27%
Brokerage firm	16%	15%
Finance company	14%	12%

Insurance companies and savings banks lose the most ground among institutions where consumers say they maintain accounts.

Consumers Aren't Convinced Banks Need More Powers

Commercial bankers failed to make progress during the past year in convincing consumers of the need to expand the banking industry's powers, according to a study commissioned by the *American Banker.*

Yet bankers may have a tough time protecting their turf, as consumers show less resistance to other industries invading the banking business than they do to allowing new powers for banks, according to results from this year's survey on consumer attitudes toward financial services.

Expanded Powers

About a third of the survey respondents support additional powers for banks, such as real estate and insurance services, but half continue to oppose those changes. A few more support the general concept of additional powers when real estate and insurance are not mentioned.

But the results in both cases show virtually no change from the responses to the same question in 1984.

"I'm not surprised that banks have gained no ground — actually I'm surprised their support for new powers hasn't slipped some in the past year," says C.T. Conover, who was a strong advocate of banking deregulation as comptroller of the currency. Mr. Conover, who now works in the private sector in California, says the feeling remains among the public that only banks would benefit from deregulation, not consumers.

"That's why we haven't seen any legislation come out of Congress, despite the continuing discussions and lobbying by bankers," he says.

The most frequent argument against the new powers centers on consumer fear of diversification by their banks, according to responses to an open-ended question. Nearly half of those opposed to expanded bank powers said something about banks not having the expertise for new fields and that they should stick to their specialty of collecting deposits and making loans.

"I think that if the banks branch out into the insurance and real estate businesses that it would be a very risky venture," says a young man from an upper-middle income household in the Northeast. "It would put a definite strain on the establishments they have now — it would jeopardize the stability of the bank itself."

Or as put by an elderly woman from a low-income household in the Northeast, "Times change, but I don't think banks need to change."

That theme carries through to the mixed opinion of consumers on whether additional powers might improve the health of the banking industry. Those polled split almost evenly when asked if new powers might lead to better health for the industry, a new question asked in this year's survey.

The survey is the second commissioned by the *American Banker* to measure public attitudes toward banking and financial services.

New Support from the Affluent

Most promising for bank lobbyists is growing support among affluent customers — those with annual incomes of at least $50,000 — for new bank powers. That group increased its support slightly in the question that asked about allowing banks into real estate and insurance.

Upper-income respondents showed an even more dramatic increase in support for new powers when real estate and insurance were not mentioned specifically. More than half of those making $50,000 or more supported new bank powers in general in 1985, compared with a third of that group in 1984.

Backing for expanded bank powers remained strongest among younger respondents, whose support was almost double that of the elderly. Older respondents, though, did increase their support a bit this year.

About half of minority respondents continue to support new bank powers — some 20 percentage points higher than among white consumers.

Continued on Page 10

What Consumers Say About Expanded Bank Powers

"

It's like McDonald's — they once specialized only in making burgers. Now they make sandwiches and other stuff and the speed and quality of their serrvice has gone down. You should stick with one business and make it thrive instead of diversifying...

— Middle-aged man from the Northeast

I believe in free enterprise. They can do whatever they want if they have the money...

— Middle-aged man from an upper middle-income household in the South

I just don't feel that they have the expertise for these things...

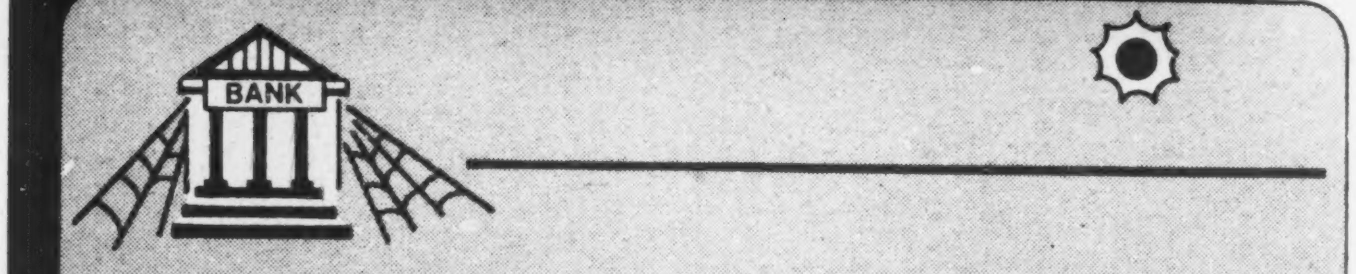
— Young man from a lower-income household in the South

It would make them full-service entities, so there will be no middlemen to eat up more of your money...

— Young woman from the West

"

Banks Gain No Support for New Powers



Is it a good idea to allow banks to offer new services such as insurance and real estate?

	1984	1985
Yes	33%	34%
No	50%	52%
Not sure	17%	14%

Banks Have Less Consumer Support in Protecting Their Turf

CARS
DEPARTMENT STORE
BROKERAGE FIRM

Consumers are more likely to support other industries that want to offer banking services than to support the efforts of banks to get into new businesses.

	Good idea	Not a good idea
Banks into new businesses	34%	52%
Other companies into banking	44%	45%

Continued from Page 9

Residents of the Northeast remained steady in leading the support for additional bank powers, with the weakest support still coming from the North Central region.

Half the respondents in 1985 still disagree with the statement that banks suffer too much regulation to compete effectively against other firms providing financial services, though nearly a third of those surveyed agree that regulations stymie the competitive efforts of banks.

Nonbank Competition

Banks having to face more competition for consumer financial services seems less troubling to consumers, as revealed in a new question included in this year's survey. Asked if it is a good idea for nonbank companies to get into financial services, consumers offered a mixed view overall — split about evenly between calling it a good or bad idea.

But in the West, where residents say they favor other companies getting into banking, some 53% are in favor and 36% opposed. The lowest regional support for the concept comes from the North Central region, where 39% of residents support letting other businesses into banking and 46% oppose it.

"Actually, I think it's a nonissue," says Marion O. Sandler, president of the Golden West Financial Corp., a thrift holding company in Oakland, Calif. Ms. Sandler is among the financial executives who face direct competition from the invading nonfinancial firms. Sears Savings Bank, a subsidiary of the giant retailer, also is located in Oakland.

Ms. Sandler thinks combining financial services with other businesses won't work in the long run. Like the conglomerates that were so popular in industry in the 1960s, she says, "I think we're seeing that the pieces aren't working together for Sears, Prudential-Bache, and the others trying to get into banking."

Bankers, though, generally take the threat seriously, particularly since they haven't been granted the additional freedoms that the thrift industry has. Thrifts already have won limited powers to invest in such things as equity stocks and real estate.

"Everybody talks about the new powers that banks have received, but banks just haven't received any," says James G. Cairns, who is stepping down as president of the American Bankers Association.

The need for additional powers remains one of the association's biggest challenges, he says, particularly in light of the *American Banker* survey results. He calls the news that banks gained no support for new powers "disappointing, but not that surprising."

The difficulty centers on showing consumers specifically how they can benefit from additional powers for banks. It's easier for consumers to see the potential benefit of other companies coming into banking, Mr. Cairns says. "They see it as additional competition for us, and they've no real problem with buying financial services from somebody else." ■

A Quarter of Country Says Banks Are Stronger Than Thrifts

"The depositors couldn't get their money and the government stepped in and temporarily closed the banks."

— A young man from the South recently recalling the problems of thrifts in Ohio and Maryland.

In the most profitable year on record for American thrifts, evidence surfaces that the industry has lost some of its grip on its most cherised franchise — public confidence.

Two in three consumers still express equal confidence in banks and thrifts. But that remaining third is four times more likely to choose a bank to protect their money, according to responses to a nationwide survey commissioned by the *American Banker.*

Consumer Confidence

"It's the first-choice reflex among our customers that it looks like we're losing," says Paul Willax, chairman of Empire of America, Buffalo. He and other thrift leaders express disappointment in the findings, but little real surprise.

They point to the temporary thrift closings in Ohio and Maryland, promptly recalled by the young man above and many others nationwide. Those thrift crises developed last spring, just months before the survey was conducted.

But few thrift executives would expect to see improvement in the public's confidence in thrifts since the survey, which was conducted in late July. "You can bet that if you asked the same questions today, the numbers would come in even lower," says Marion O. Sandler, president of the World Savings & Loan Association, Oakland.

To illustrate continuing bad news, she points to recent proposals to pump money into the mammoth federal fund that protects deposits in every state. It was the collapse of state-sponsored insurance funds in Ohio and Maryland, as well as one the year before in California, that led to runs on thrifts and the freezing of deposits.

Now concern also centers on the Federal Savings and Loan Insurance Corp., whose future has divided the thrift industry like few issues before.

Commercial banks, as well, have simply done a better job in blunting any public concern about their problems, says Dennis Jacobe, research director for the U.S. League of Savings Institutions. "They've deflected attention from their problems with international loans, potential losses that easily eclipse those of the thrifts, and they've done it partly by harping on the problems of the state funds that collapsed," he says.

The survey points to some bright spots in the thrift industry, though, and suggests a certain level of sophistication in consumer understanding of the role of federal insurance.

Customers of savings banks, for example, appear more confident in the financial system than those of savings and loans. In a general question about the state of the nation's savings institutions, three-in-four customers of savings banks express optimism for the system's health, compared to two-in-thee customers of savings and loan customers.

The difference probably reflects tranquility in traditional roost of savings banks, the Northeast. That region does indeed express more overall optimism for financial institutions than the rest of the nation, according to the survey responses. Some 81% of Northeasterners consider the system essentially healthy, for example, compared to a low of 67% in the West.

"The Northeast has escaped the problems that plagued thrifts in the West, Southeast, Southwest, as well as Ohio and Maryland," says Mr. Jacobe.

The region, in fact, saw the easing of some of its most pressing problems during the past year. The huge losses of savings banks in New York City, which peaked in 1982 and 1983 but continued into last year, finally eased.

Most of the savings banks even returned to profitability as rates came down and stabilized. Attention instead

Continued on Next Page

Consumers Are Four Times as Likely to Call Banks Stronger than S&Ls

Do you have more confidence in keeping your money in a federally insured commercial bank or in a federally insured savings and loan?

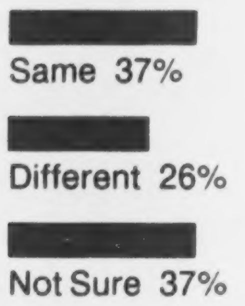
Commercial bank	Savings and loan	Equal Confidence
26%	6%	65%

turned to the bailouts of the worst cases, led by the Bowery Savings Bank. Federal officials last month proudly unveiled a half-billion dollar recapitalization plan for the Bowery.

Those international loans, which most threaten the money center banks of New York, also receded from the front page, Mr. Jacobe notes.

As previously reported, consumers generally express as much, and perhaps slightly more, optimism in the savings system as compared to a similar study commissioned by *American Banker* in 1984. Thrift customers also reflect stability in their faith over the last year, but no real increase.

Few people distinguish between federal deposit insurance at commercial banks and at savings and loans:



Some 78% of commercial bank customers, for example, express confidence in the system's health, an increase over 73% in 1984. Thrift customers showed an insignificant change, from 68% expressing general optimism in 1984 to 70% in 1985.

Consumers also seem to see no clear distinction between the national fund that guarantees deposits at banks, the Federal Deposit Insurance Corp., or in FSLIC. Only a quarter say they see a clear difference between the funds.

But when probed further, those that see a differerence are nearly evenly split on endorsing one fund over the other — 20% endorse FSLIC over FDIC, 23% go the other way. The responses, though, don't reflect any impact that may have resulted from the most recent discussions on FSLIC.

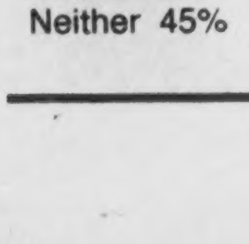
Most executives assume that consumers understand the backing of the federal government in either case. That may be a side benefit from the problems with the state funds, suggests Donald I. Hovde, a member of the Federal Home Loan Bank Board.

Yet the industry as a whole "was victimized" by those events, he says. "The headlines in Europe just said that American thrifts had shut down," Mr. Hovde recalls.

The American public for a full week watched as people lined up outside the closed thrifts, scenes that couldn't be erased by later reports that the state officials stepped in to repay depositors.

Neither fund wins endorsement

Of those who see a difference between the federal funds backing deposits at banks or thrifts, the percent who endorse either as superior:



"Consumers saw that they probably get their money back, so they haven't any reason to panic," says Stephen Brobeck, executive vice president of the Consumer Federation of America. "But they also saw that with certain institutions, they could lose access to their money for months."

Federal thrifts, too, have suffered increasing losses. Some again are victims of scams, such as government securities dealers and real estate speculators, Mr. Hovde says. Other consciously gambled the ship, particularly in Southern California's volatile real estate market.

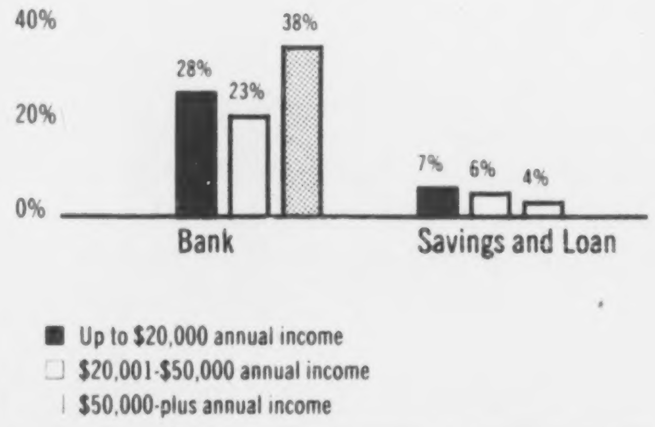
That market around Los Angeles and San Diego, home to some of the nation's largest and most profitable thrifts, probably best reflects the industry's current dilemma.

It's a frustrating case of haves and have nots; a sector with 90% of its members enjoying record profits that should top $5 billion in 1985 nationwnide. But of the 10%, some are thrifts that remain crippled by the interest rate squeeze of 1981 and 1982, and an increasing number are victims of spectacularly bad loans.

The average cost of closing a thrift in 1984 jumped by as much as three-to-five times the cost in the early 1980s because of the emergence of sour loans, according to Congressional testimony by Edwin J. Gray, chairman of the Federal Home Loan Bank Board. That has led to his concern that FSLIC may prove insufficient to cover the next wave of losses.

Wealthy most likely to show more confidence in banks

Q. Do you have more confidence in keeping your money in a federally insured commercial bank, or in a federally insured savings and loan association?



Mr. Hovde disagrees and doesn't like open talk of potential FSLIC insolvency. He argues that beefed-up examinations and a steamlined bureaucracy, efforts led by Mr. Gray, should stifle future problems and enable the industry to ride out current losses.

The very nature of the losses adds heat to the debate, however. It's a case of strong institutions getting stronger, and the weak getting weaker. Not that the thrift industry suffers that dilemma alone; banks also suffer from a similar "polariziation," according to reports from Veribanc Inc., a Massachussets firm that monitors the performance of banks and thrifts nationwide.

The issue seems more urgent to the thrift industry, which once seemed united against its traditional nemace of high interest rates. Now the industry faces problems that seem isolated to a few.

Different bailout plans that would tap the highly successful Federal Home Loan Banks, for example, create some of the most bitter controversy. The banks are independently owned by the thrifts, and dominated by the healthy members.

"I'll pull out all of our investment in the New York bank if it puts one penny into those bad assets of FSLIC," says the chairman of a large and profitable savings bank in New York City.

Yet unless the few are rescued by the many, they could bring down the industry, Mr. Gray argues.

The industry must get past its dichotomy if it hopes to survive. Says Mr. Willax, "It's going to take extraordinary leadership."

Mr. Hovde tries to assure the industry and the public that the leadership can handle the problems. "Ask consumers the same question again in 1986, and I think that they'll put thrifts on parity with banks," he boldly predicts. ■

Thrift Woes And the Public

A majority of consumers nationwide have heard of problems that face the thrift industry, and that awareness appears to somewhat chill the public's attitude toward financial instiutitons in general, according to a study commissioned by *American Banker.*

More than six-in-ten consumers say they've heard of savings and loans having serious troubles. Those aware of thrift problems are more likely to express doubts about the overall health of the American financial system, and are less likely to support the efforts of bankers to expand geographically or into new services.

Thrift Problems

"It's clear that news about the continuing crises of the savings industry is getting through to the public; they know what's going on," says James K. Anderson, chairman of Pacific First Federal Savings Bank, Tacoma, Wash.

The most dramatic thrift problems of the past year apparently weigh heavily in the public's assessment of the industry: about half of the total respondents to the nationwide survey say they are specifically familiar either with the thrift crises of Ohio or Maryland, or both.

The interviews were conducted in late July, just months after the failure of state-sponsored funds that backed deposits in Ohio and Maryland. *American Banker* sought to measure the impact of those events, among other issues, in the attitudes of consumers toward financial institutions in the second of the paper's annual surveys.

Hearing the news about thrift problems clearly chills the faith that consumers hold in the country's savings institutions, according to responses to the survey. The feeling that thrifts in general face problems raises the share of consumers who consider the financial system to be unhealthy, from 16% to 26%.

HOW CONSUMER AMERICA VIEWS THE CHANGING FINANCIAL SYSTEM

More copies of this 16-page reprint of *American Banker*'s recently published series examining how American consumers view the great changes in the financial system are available for purchase.

Based on its second annual survey of 1,000 households conducted with help from Reichman Research Inc., a New York opinion research firm, the reprint includes reviews of all issues covered during the series that ran in *American Banker* during October and November of 1985: how consumers view the health of the banking system, the integrity of bankers, and the performance of financial regulators.

Americans were asked, too, what they think about and expect from interstate banking; how they view banking by mail, telephone, and computer; and whether they favor the expansion of powers for financial institutions.

The survey reprint also reports on what kinds of financial institutions most satisfy people, and whether Americans like new electronic banking services such as automated teller machines, direct deposit programs, and banking by home computer. And what does the public think about the thrift industry's problems?

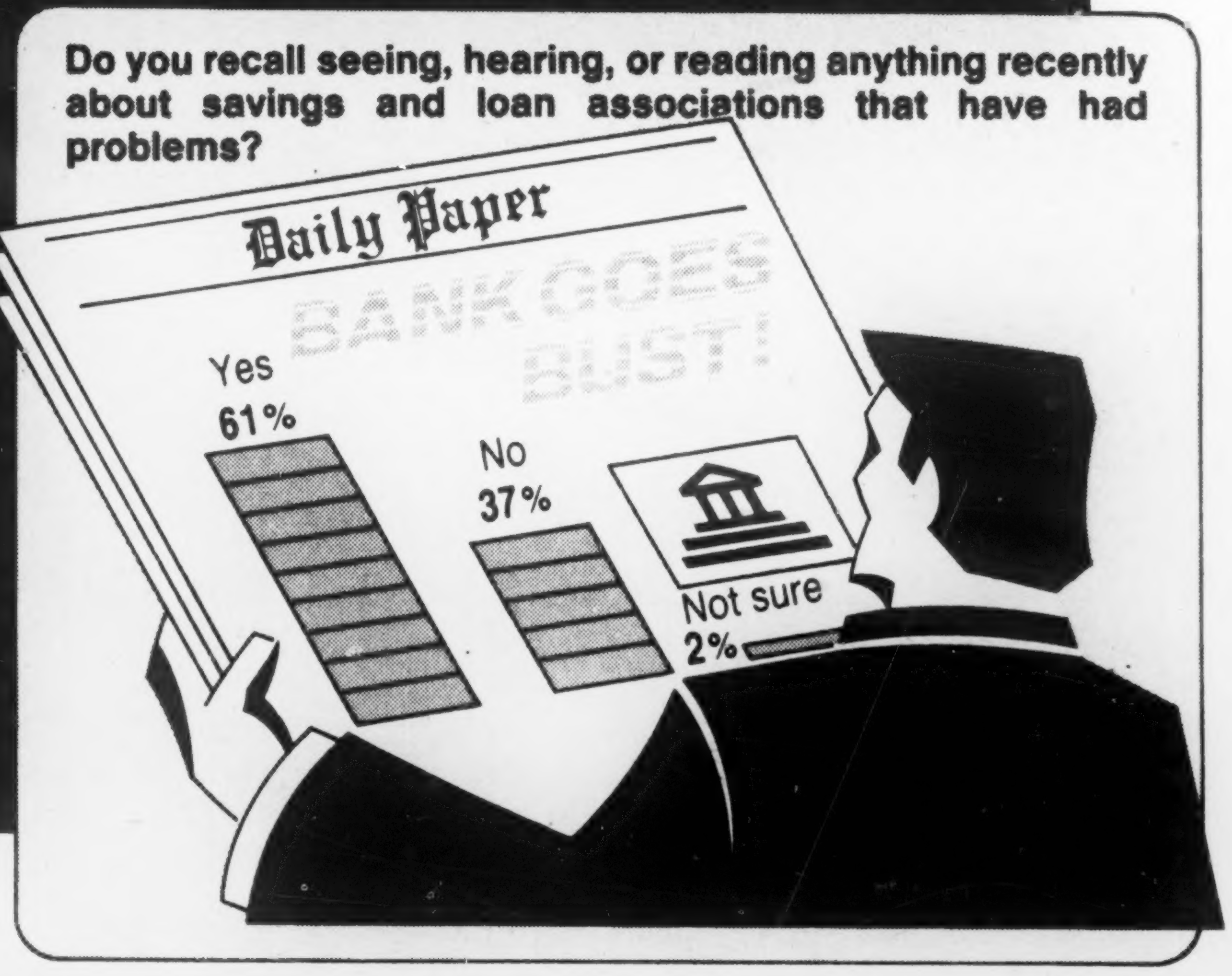
Copies of the *American Banker* reprint can be obtained by sending a check for $15 for each copy to: *American Banker*, Att: Gina Caputo, One State Street Plaza, New York 10004 (212-943-8677).

In addition, Reichman Research is making available the survey data in a variety of other formats, including a hard copy report, magnetic tape, and a diskette package. Additional information, including a copy of the questionnaire, can be obtained from David Reichman, president, Reichman Research Inc., 3 East 44th St., New York 10017 (212-986-7709).

This is the second *American Banker* consumer attitudes survey. Copies of the previous survey, published in 1984, are available for $10 each.

Consumers Are Aware of Thrift Problems

Do you recall seeing, hearing, or reading anything recently about savings and loan associations that have had problems?



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And among those who say they know specifically of the events in Ohio and Maryland, some 31% assess the financial system as unhealthy.

Not surprisingly, the greatest awareness of problems in Ohio comes from consumers in the Northcentral states — some 44% of consumers there say they heard of the collapse of that state's insurance fund. Ohio's problems actually began in Florida, where the failure in early March of a small government securities dealer, E.S.M. Government Securities Inc., led to huge losses at Home State Savings Bank, Cincinnati.

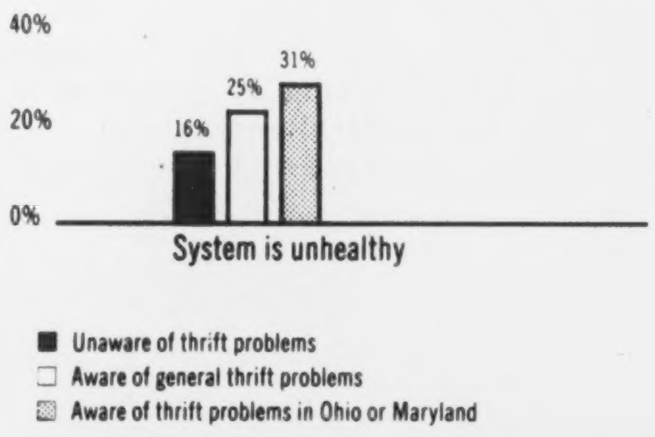
Intense press coverage of Home State's problems led to runs on institutions backed by Ohio Deposit Guaranty Fund, a privately-funded corporation that protected the deposits at some 100 thrifts in Ohio. Some of the state's thrift executives, in fact, blame the press coverage for spreading Home State's problems among the other institutions.

But when asked what they felt is the primary cause of serious problems at a financial institution, consumers overwhelmingly say that bad management ranks as the primary reason — pointed to by 63% of the survey group. Excessive press coverage ranked fifth, cited by only 4%. Other reasons include economic problems, cited by 12%; dishonest management, 10%; and faulty government supervision, 6%.

Looking specifically at those consumers who know of the problems of the thrift industry, some 69% cite bad management as the key problem. Only 54% of those unaware of thrift troubles consider bad management the prime threat to financial institutions.

Ohio and Maryland cause further erosion in public faith in system's health

Of those aware of thrift problems, the percent who say they rate the country's banking system as fairly or very unhealthy:



Consumer awareness of the problems in Maryland, which followed those of Ohio by a matter of weeks, was much less widespread nationwide and evenly spread among the regions.

"If you could focus on just the people around Washington, D.C. and Baltimore, you'd probably get high recognition of Maryland's thrift crisis," says Dennis Jacobe, research director of the U.S. League of Savings Institutions. "Maryland's problems received less national coverage than did Ohio's, though the press on Maryland was intense in the Washington-Baltimore area."

Ohio's drama apparently did more to scare consumers, as well. Consider that some 17% of the total survey group says it holds more confidence today in America's financial system than they did a few years ago; some 32% say they hold less confidence now. That's a less-/more confidence ratio of about 1.9 to 1.

If familiar with Maryland's problems, that ratio drops to 42% less confident, and 21% more confident, a clear 2 to 1 ratio. That ratio jumps to more than 3 to 1 if consumers are aware of Ohio's problems: 37% less confident to 11% more confident among consumers familiar with thrift failures in Ohio.

While the executives of most banks and thrifts that are federally insured report some increase in customer inquiries during the problems in those two states, most agree with John T. Morgan, chairman of American Savings Bank, New York City.

"The problems in those states really didn't reach us — we just didn't see any change in the attitudes of our customers toward our business," he says.

Mr. Anderson of Pacific First cites the results of a regional survey, conducted by his thrift and several competitors, that showed his institution generally ranked as high as commercial banks for safety in the minds of consumers. "The public apparently can differentiate one thrift from the problems of the industry when it comes to judging individual institutions," Mr. Anderson says.

But the effect does carry over into political questions, according to the *American Banker* survey. News about troubled thrifts apparently costs banks about a sixth of support for removing restrictions on interstate banking: while some 63% of consumers who are unaware of thrift problems support interstate banking, compared to 53% among those who have heard of the industry's trouble.

Thrift problems cause a similar erosion in the public's support for new banking powers. Responses seem evenly split among consumers who are unaware of thrift problems — some 46% favor new banking powers and 45% oppose them. That compares with 38% support among consumers aware of thrift problems, who also register 54% opposition. ■

Consumers rank what they consider the primary cause of trouble at financial institutions:

Bad management	63%
Problems in economy	12%
Dishonest management	10%
Faulty government supervision	6%
Too much news coverage	4%
Too many new powers	3%
Other	1%

Thrift Problems Hurt Public's View of System's Health

Percent of consumers who think banking system is unhealthy, when they are...

Aware of thrift problems
26%

Unaware of thrift problems
15%

What Consumers Say About Thrift Problems

> "Most of the thrifts in Maryland and Ohio were not federally insured — that's why they were in trouble...
>
> *— Middle-aged man from an upper-middle income household in the Northeast*
>
> A bank out here went bankrupt and a lot of people lost their money. They've been trying to get it back for a long time now. I know that has created a lot of doubts in a lot of people's minds as to the safety of their money...
>
> *— Young woman from a middle-income household in the North Central region*
>
> They gave out big loans that they didn't get back. I don't think the banks investigate the people like they should before they give out loans...
>
> *— Middle-aged man from a lower-income household in the South*
>
> I recall that older people that thought they were investing their money lost their savings...
>
> *— Young woman from a southern household*
>
> The savings and loans over-extended themselves. They didn't hold back enough money to cover things when they got into trouble...
>
> *— Middle-aged man from a western household*"

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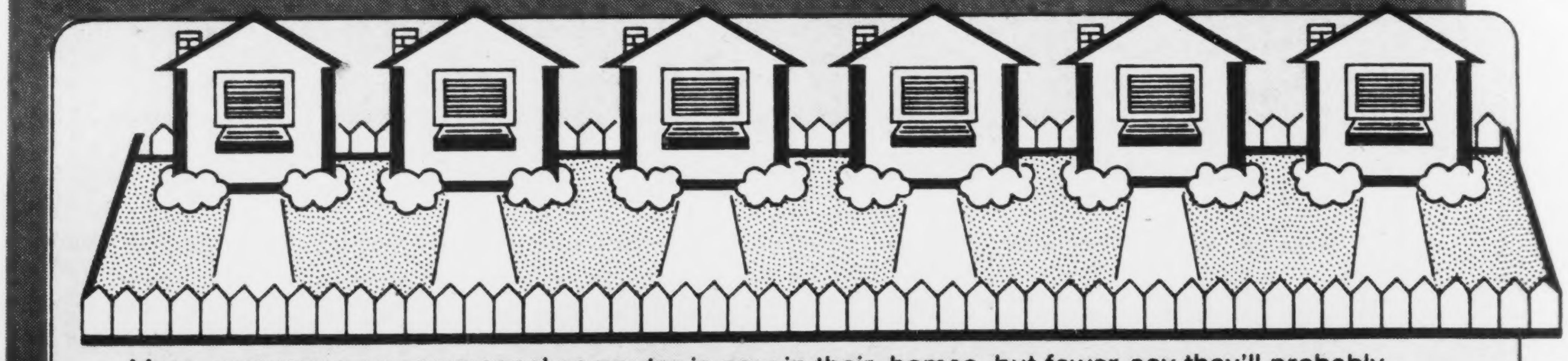
Bright Future of Video Banking Is Still There, but Further Away

Computer Ownership Increases, But the Potential Market Decreases



More consumers say a personal computer is now in their homes, but fewer say they'll probably buy one in the next year.

Does someone in your household own a personal computer?

	1984	1985
Yes	18%	22%

Of those without one now, the percent who say they are likely to own a personal computer within the next twelve months:

	1984	1985
Yes	29%	26%

Do not own and unlikely to own:

1984	1985
57%	57%

Bill Silbert

Home banking has lost some of its charm among computing buffs, according to a study commissioned by the American Banker.

Home banking's potential market increased by 20% during the year, as more than one American household in five now has its own personal terminal.

But computer owners who say they would likely try home banking dropped significantly — from more than six consumers in 10, in 1984, to about five in 10 this year. A similar drop appeared among computer owners who say they are comfortable with the general concept of shifting cash around via their home terminals.

Home Banking

The softening in enthusiasm gives credence to a growing realization that home banking is no easy sell.

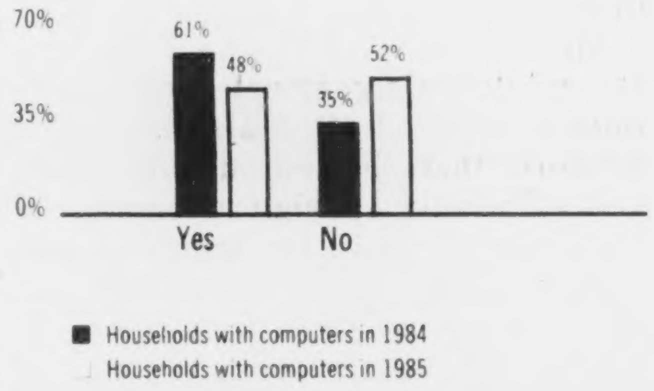
"Many people have been expecting this to be a revolution in banking, but revolutions only happen in politics. This is an evolution," says Charles Forbes, vice president for marketing and sales of Chemical Bank's home banking service. His operation, with more than 23,000 homes that conduct their banking transactions via a personal terminal, ranks as the country's largest.

While troubled by the lukewarm reception for home banking, proponents, nonetheless, eventually see a bright future for video banking. Even the more skeptical say that it will take more time, but that they still see it coming.

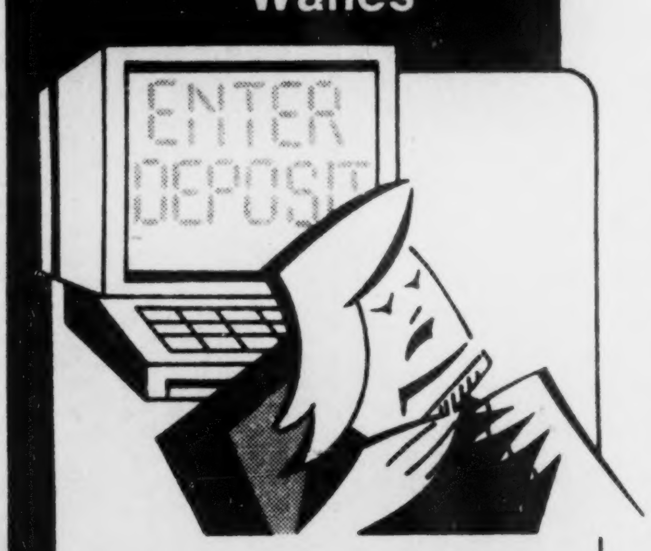
"Home banking has a good future — it's just not right now," says Patrick O'Sullivan, vice president for marketing at Worthen National Bank, Little Rock, Ark. Worthen this year ended a test of video banking services and decided against proceeding with a full program. Mr. O'Sullivan predicts that demand for home banking will not really heat up until the 1990s.

Computer owners shy away from home banking

Q. Are you comfortable with the idea of doing routine financial transactions from your home with a personal computer?



Enthusiasm for Home Banking Wanes



Would you consider using a service that allowed you to do banking at home through the use of a computer?

	1984	1985
Would seriously consider it	62%	51%
Would not seriously consider it	33%	45%
Now use	...	3%
Not sure	5%	1%

Many proponents, though, say the survey results reflect more of a changing market than a shrinking market.

"There's been a big change in who's buying computers since they first came out. Last year, you probably had a lot more 'bits and bytes junkies' who had more interest in anything available for their computers," says Thomas Byrne, vice president and group product manager in charge of the new video banking program of Home Federal Savings and Loan Association, San Diego.

The American Banker's survey, in fact, reflects a broadening of computer ownership over the responses to the same questions in a similar survey a year ago.

The new results indicate an increase in the percentage of women who say a computer is in their home, while male responses reflect a less dramatic rise — though breaking down the survey results also increases the margin of error, making any trends more tricky to judge. With that caveat, the survey also indicates that suburban ownership stabilized during the year, while the number of computers in city and rural homes increased dramatically.

Some gaps in computer markets widened, though. Larger households, those with two or more adults above 18 years old, and those with two or more wage earners bought computers at a faster pace than did smaller households.

Those trends may reflect a more practical consumer who demands more than entertainment and gadgetry for the money he or she spends on electronics. Buyers more often seek to solve specific problems with electronic purchases, says Kevin Randolph, vice president of Bank of America in charge of that bank's home banking operations.

Bankers, meanwhile, have failed to market home banking as a solution to any vital needs, Mr. Randolph says.

"As an industry," he explains, "we've done a great job of telling each other how good home banking is. Now, we need to talk more to the marketplace."

And bankers need to listen, as well, he adds. Bankers largely approached home banking as another add-on feature for consumers looking to use their new computer power. Bankers assumed that the potential for home banking would result from the sale of personal computers, which boomed so dramatically in the early 1980s.

The same assumption permeated the computer industry itself — that bigger and more powerful would sell more, including more options. The large shakeout of computer companies has led to a wave of introspection among the survivors, and a potential change in direction.

One new direction surfaced in home banking efforts, as well. Mr. Randolph cites the inexpensive, small terminals introduced by Citibank and Covidea, the videotex service which offers home banking services, including those of Chemical Bank and Bank of America.

Covidea's terminal, for example, would sell for less than $100, or for an undetermined monthly fee, and provide the consumer with quick, easy access to banking services. Citibank said it will lease its "pocket computers" for about $5 a month to account holders with balances of less than $2,500, with no charge for others.

Mr. Randolph says the new terminals probably represent the best hope for home banking to boom as hoped. These terminals get past the prerequisite of first getting personal computers into the hands of consumers, not to mention the second hurdle of modems — the devices, usually added on, that enable a terminal to communicate over telephone lines.

Probably less than one-quarter of the households with computers also own modems, Mr. Randolph says.

Their own, dedicated terminals provide the banks with a better method than having them all compete for the personal computer market, he says.

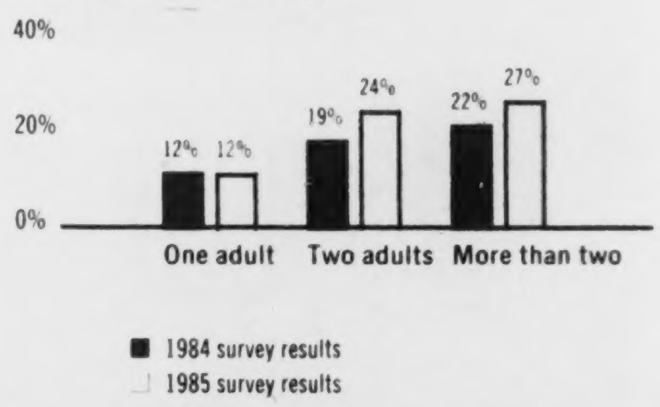
Computer sales also will not grow fast enough to support the growth needed to support home banking, Mr. Randolph adds.

The survey results, indeed, suggest that the growth in computer onwership will continue to slow. The percentage of consumers who say they are likely to buy a computer in the next year declined from 1984 to 1985.

Even if the new terminals do not sell, though, William Harris, president of VideoFinancial Services Inc., Dallas, says he does not worry that home banking will die. He even sees hope in the survey results.

Larger households buying computers at a faster pace

Percent responding from single- and multi-adult households that someone in their home owns a personal computer of some type:



"If we can indeed attract half of the computer owners to home banking, that would be a solid 10% of the consumer market," he says.

Mr. Harris advises keep in mind that computer owners also tend to be wealthier and better educated, and thus an attractive banking customer. "Banks would be stumbling over themselves to get that kind of market share of those people," he says. ■

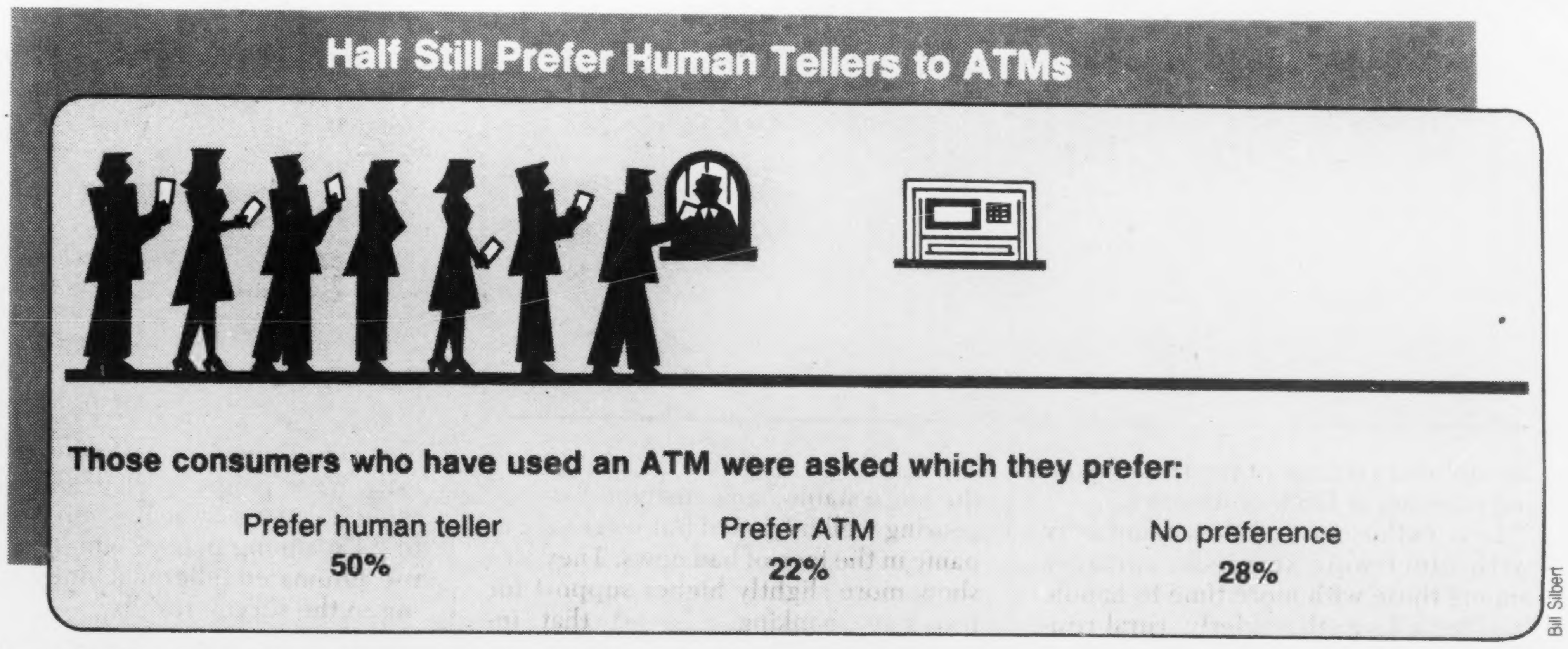
Wooing Customers to ATMs Has Moved Beyond Puppy Love

The public's affection for the automated teller machine has become more than a casual affair, with about half the country having used the electronic version of the great American money machine.

Automated Teller Machines

Half of those who have tried video tellers, though, say they still prefer handling routine business through teller windows, according to responses to a nationwide survey commissioned by the *American Banker.*

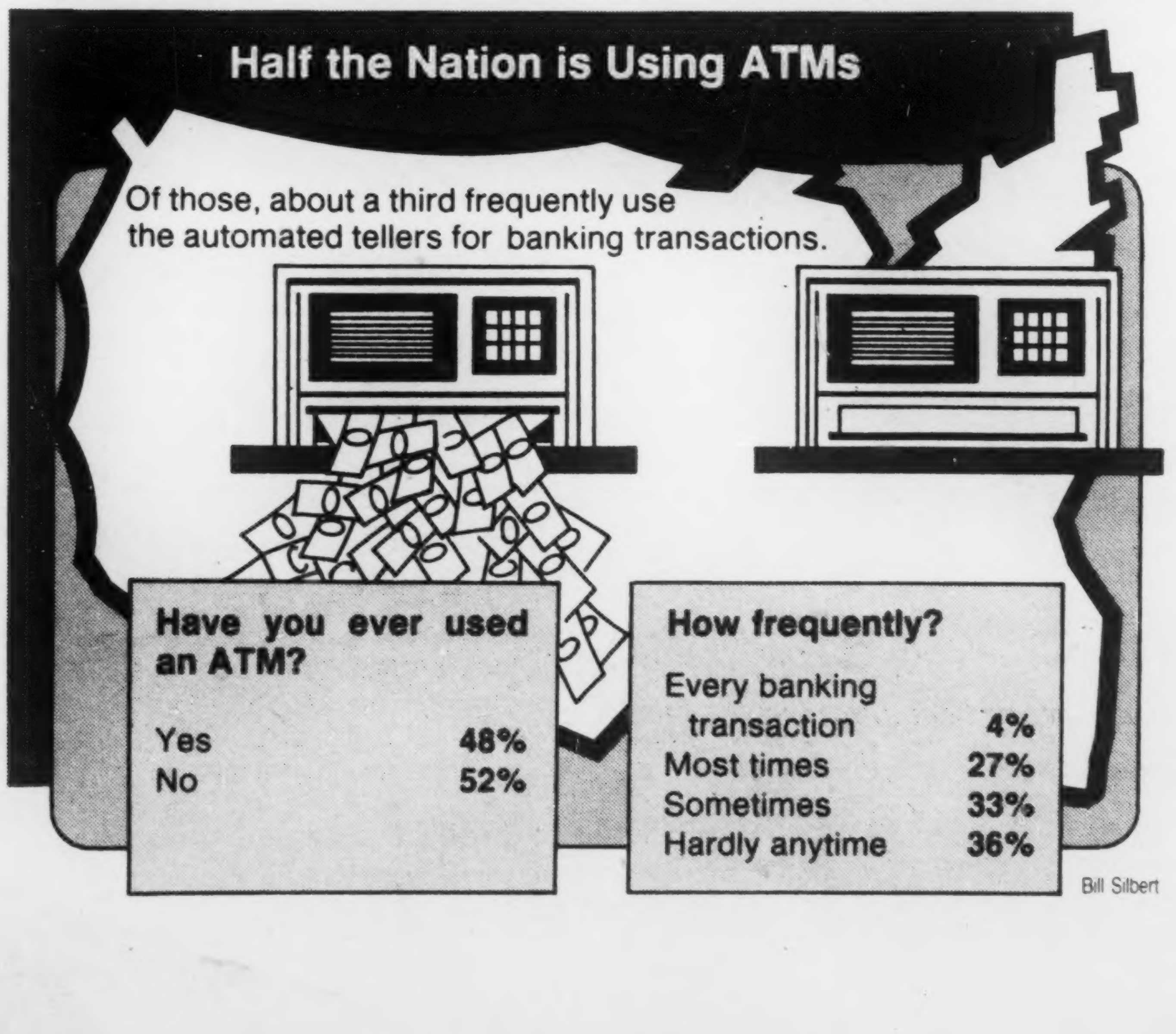
That finding disturbs some of those charged with encouraging customer use of the automated tellers; at least one feels the respondents must not have fully considered the tradeoffs.


Half Still Prefer Human Tellers to ATMs
Those consumers who have used an ATM were asked which they prefer:
Prefer human teller
50%
Prefer ATM
22%
No preference
28%
Bill Silbert

"I wonder, for example, what they'd say if you asked them whether they'd rather wait up to 15 minutes in a line for a teller or go straight to the ATM," says Gary Roboff, vice president of Manufacturers Hanover Trust.

But the preference for a human face doesn't seem the major factor in discouraging consumers from at least trying the machines: only about 20% of those who say they haven't punched any automatic teller buttons say it's because they prefer a warmblooded teller. A comparable number say it's because their institution hasn't installed the video terminals.

The strongest damper on getting consumers started with video terminals also stymies many other new products — convincing the customers that they need the service, according to the *American Banker* study.


Half the Nation is Using ATMs
Of those, about a third frequently use
the automated tellers for banking transactions.
Have you ever used an ATM?
Yes 48%
No 52%
How frequently?
Every banking transaction 4%
Most times 27%
Sometimes 33%
Hardly anytime 36%
Bill Silbert

The survey included an open-ended question that asked consumers why they haven't tried the automated tellers.

"Never had a reson or need to use one," says one woman — reflecting the opinion of nearly half of those who haven't tried the video tellers.

So Mr. Roboff and a small army of bankers are studying their customers, trying to identify needs that can be met — and trumpeted loudly — to promote use of the automated tellers. They're anxious to speed the evolution; the electronic processors save money for the institution, and provide new opportunities for flexible banking services.

The survey confirms industry research that the typical user of automated tellers makes more money, is better educated, and generally younger than the average bank customer. But broadening their use to other groups has proven challenging, with exceptions.

"ATMs have caught on wildly in some blue collar areas where people commonly use them for most transactions," says Kevin Randolph, a vice president at Bank of America.

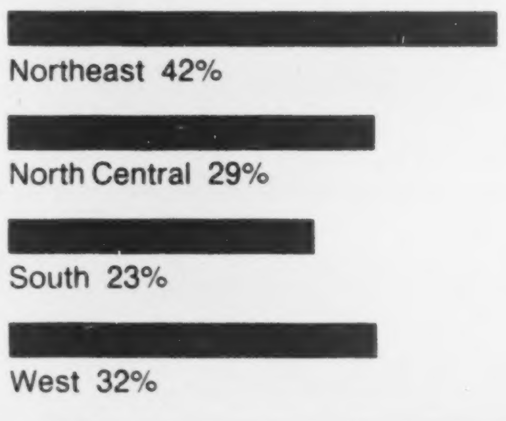
That may jive with another survey finding: that credit unions have done a good job in promoting the use of automated tellers. Some 57% of the people who say they use a credit union for at least some business also say they have tried the video tellers. That's only topped by brokerage firms, where 62% of their customers say they have tried the machines.

In looking at core customers, those who describe a particular institution as their primary bank, thrifts show the least success in encouraging use of the automated tellers. Only 42% of thrift customers have tried the electronic portals, which compares to 54% of commercial bank customers.

Most banks have yet to aggressively push the automated tellers, says Marjolijn van der Velde, a managing director at the Bank Administration Institute. "They're getting ready to gear up, but first are trying to figure out marketing strategies for their ATMs," she says.

Some banks have greatly increased usage, for example, by getting to new customers as they open an account. The institution provides an access card during the initial visit, instead of the common practice of mailing a card later, and enters the necessary code to authorize the card's use.

The percent of people who say they use ATMs for most or every banking transaction (by region):

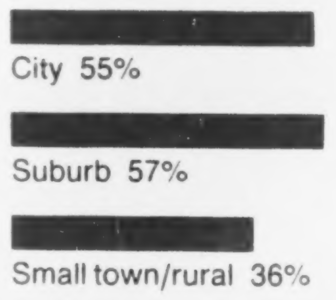


"Then they have the consumer make their initial deposit through the automated teller," walking them through the process and answering any questions, Ms. van der Velde says.

One option that seems to have caught on quickly with those who have tried automated tellers are the networks that link the machines of a number of institutions. Nearly a third of those who have used an automated teller also have used one at a bank other than their own, according to the survey.

And nearly half of those — or about 6% of the 1,000 interviewed — say they have used an automated teller that was located in a different city. That number would probably be even higher if not limited to those who have used an automated teller through a different bank, as so many more banks now have branches in different cities, Ms. van der Velde says.

Q: The percent of residents who say they have used an ATM (by type of community):



But the networks rank as a key marketing tool, says Mr. Roboff, who notes Manufucturer Hanover's membership in both a regional and national network.

Northeastern banks have the most fully developed automated teller facilities, as the machines are largely designed for the high volume of transactions that are common to urban areas. The survey confirms, indeed, that rural dwellers are the least likely to have tried a video teller — and that the Northeast residents use them most frequently.

Of those in the Northeast who have used a machine teller, some 42% say they use them for at least most transactions — and 11% say they use them for every banking transaction, compared to 4% nationwide.

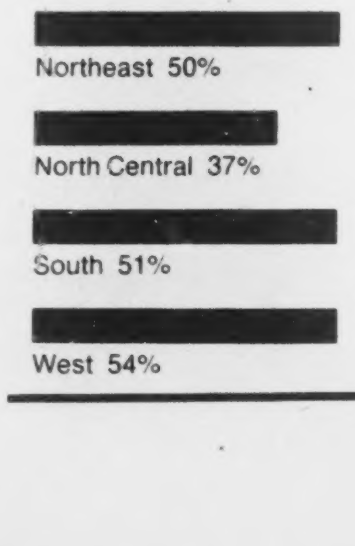
That contrasts with low usage in North Central states, where only 37% of the survey respondents say they have tried an automatic teller.

A new factor also surfaced in the survey's results, the trend in some Southern states to place a charge on the use of automated tellers. Only a few of the survey respondents cite the new charges as why they choose not to use the machines, but at least one proponent fears that trend will grow.

"I think we should be doing just the opposite — charging for checks and not for the use of auotomated tellers," says Robert Heckman, president of MTech, which runs a network of video tellers from its Dallas headquarters.

Granted, Mr. Heckman's livelihood partly depends on the popularity of the automated tellers. But banks often express frustration at the barriers to increasing the use of automated tellers, he says. "It doesn't seem to make sense to add another." ■

Q: The percent of people who say they have used an ATM (by region):



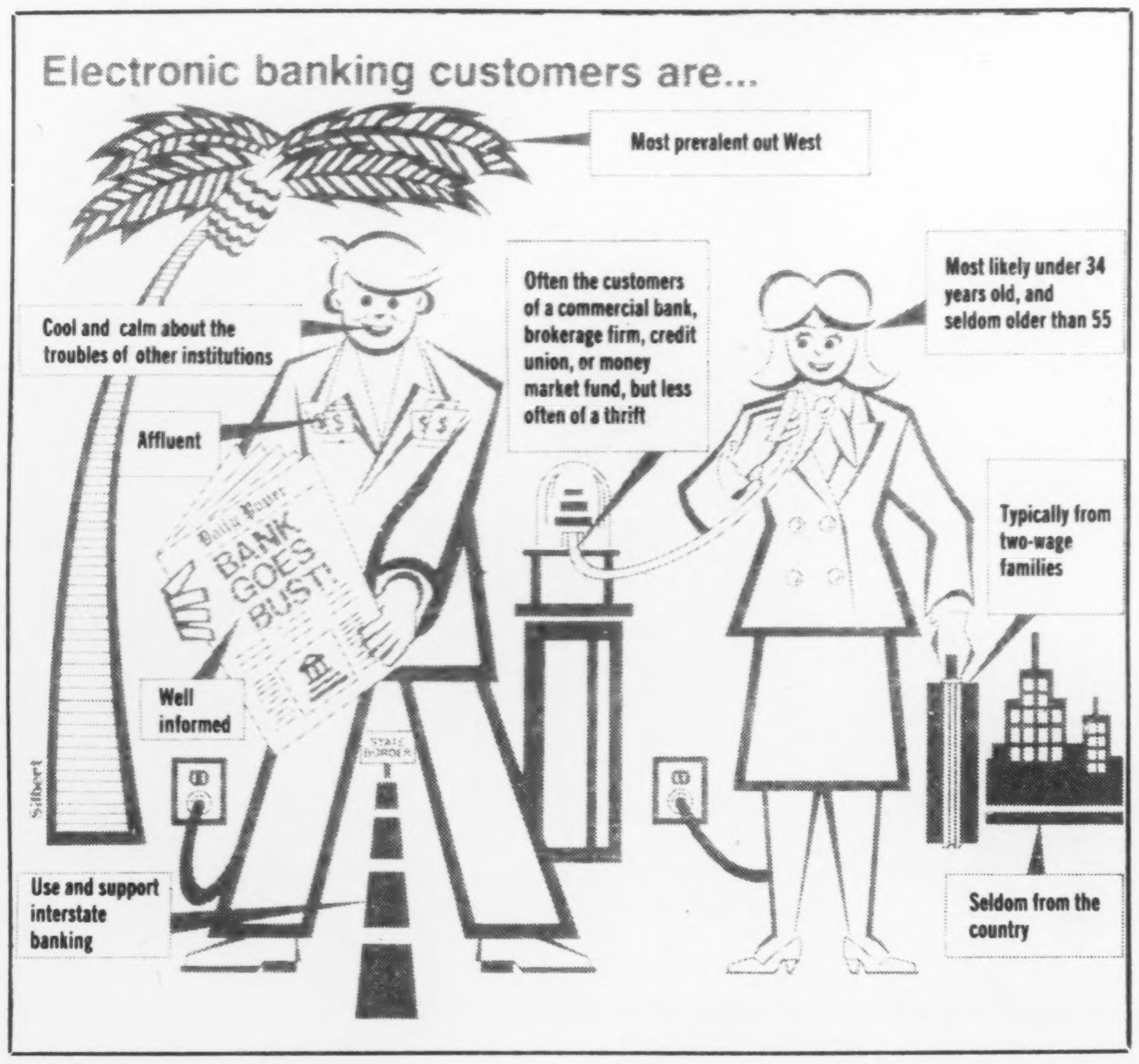
Technology's Tentacles Touch 6 of 10 Consumers

But Resistant Pockets Delay Checkless Era

Nearly two-thirds of the nation has tried electronic services, a sign that new technology has indeed fueled a long-predicted revolution in lifestyles, according to a study commissioned by the *American Banker*.

Some six in 10 respondents to the nationwide survey said they have tried an automated teller machine, or had their checks deposited electronically, or bought a personal computer.

But the checkless society appears more distant when the finding is studied more closely: Levels of enthusiasm for electronic banking vary among different groups of consumers, and clear pockets of resistance can be seen. Only some 4% of consumers show a high acceptance of technology — as represented by those who own a computer, like home banking, and frequently use an automated teller.


Electronic banking customers are...
Most prevalent out West
Cool and calm about the troubles of other institutions
Affluent
Often the customers of a commercial bank, brokerage firm, credit union, or money market fund, but less often of a thrift
Most likely under 34 years old, and seldom older than 55
Typically from two-wage families
Well informed
Use and support interstate banking
Seldom from the country
Daily Paper
BANK GOES BUST!
STATE BORDER
$$
Sibert

Electronic Services

Technology, probably the most advanced of an expected series of changes expected to sweep the financial industry, illustrates the need to better understand a moving target — the changing American consumer.

Only when technology meets a specific need, the survey results suggest, are consumers willing to make the switch. People in urban areas, particularly those from larger households and those from the West, are among those more likely to try an electronic innovation.

"People are willing to try technology only if it solves a specific problem for them, such as providing more convenience in time or location," said Kevin Randolph, in charge of the home banking program at Bank of America.

Less enthusiasm, or less familiarity with electronic services, surfaces among those with more time to handle banking affairs: the elderly, rural residents, and smaller households, particularly people living alone.

Yet technology also attracts consumers who possess some of the most appealing features for banks, particularly money. People who like electronic services earn an average of $35,000 each year, compared with an overall average income of $31,100 for the survey group.

People who are comfortable with electronic services also seem among the more stable bank customers — appearing well informed but less likely to panic in the face of bad news. They also show more slightly higher support for interstate banking, support that increases with their enthusiasm for technology.

"Overall, it's a very attractive group that bankers were willing to take some chances to attract," says William Harris, president of VideoFinancial Services Inc., a Dallas-based videotex service.

But bankers seem more willing today than a few years ago to recognize the limits of any factor, such as technology, in dramatically altering the overall market. More research goes into the type of customers served by a branch before it is redesigned for modern convenience, resulting in a number of prototypes for the branch of the future, rather than just one.

That's especially true for urban banks, where automation has the best chance to flourish, says Gary Roboff, vice president of the Manufacturers Hanover Trust Co. in New York. "The ethnic neighborhoods each demand a different type of approach," he says.

Though more open to change, consumers who are comfortable with electronics show no more support for letting banks into new businesses, such as real estate and insurance. They join in the apparent consensus among consumers that bankers should concentrate on improving what they do already.

The survey results hint at one tool that banks might better emphasize in promoting electronic services, says David Reichman, whose opinion research firm, Reichman Research Inc., conducted the survey. Consumers who participate in direct deposit programs seem more likely to try other electronic services — such as home banking or an automated teller machine — than the public at large.

Some 15% of the general population now has its checks deposited electronically. That jumps to 23% among people who own personal computers, and to 24% among people who frequently use automated teller machines, according to the survey results.

Other research conducted by his firm has indicated that consumers like taking money out of a bank through electronics, but don't trust their deposits in mechanical hands, Mr. Reichman says.

The *American Banker* finding suggests that after letting their paychecks travel by wire, consumers seem more willing to try other electronic services, he says. ■

What Consumers Say About Why They Don't Use ATMs

"I go to the bank and get enough money to last me until the next time to go.

— Elderly woman from a low-income household in the South

I don't think I'd care for them. My daughter's card got swallowed by a machine once.

— Middle-aged man from a North Central state

I don't trust a computer to handle my money.

— Young woman from an upper-income household in the South

We don't have to use one. We have plenty of time to bank with a teller.

— Elderly man from a middle-income household in a North Central state

I have no need to use one and I believe there is an extra charge.

— Young man from a middle-income household in a North Central state

This is a small town and there are no automated tellers in it.

— Young woman from a middle-income household in a North Central state

If my money is easily accessible, I'd be more likely to spend it.

— Young woman from an upper-income household in the South

I don't like the idea of taking money from a machine outside where everyone can see.

— Elderly woman from a lower-income household in the Northeast

It's just a habit to do my banking during the day — I use the drive-through.

— Young woman from an upper-income household in the South"

For Survey Reprints

Reprints of the entire *American Banker* series, "How Consumer America Views the Changing Financial System" can be obtained for $15 each by writing to: American Banker, Attn.: Gina Caputo, One State Street Plaza, New York 10004 or call 212-943-8677.

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American Banker

The Daily Financial Services Newspaper

Reprint of 1986 Survey Published in September, October and November

How Consumer America Views the Changing Financial Services Industry

Americans are getting accustomed to deregulation of the banking and financial system. They seem to be growing more tolerant of volatility in the system and less tolerant of shoddy service from the suppliers.

Their new feelings are illustrated by responses to the *American Banker's* third national consumer opinion survey. The telephone poll was conducted this spring among 1,028 households by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

In answer to survey questions, consumers voice greater confidence in the banking and financial system than in 1984 or 1985 when a similar random sample was asked the same questions. Fewer mention bank failures as a cause for concern even though the number of failures has escalated in recent years.

But, in responses to an open-ended question probing why they have experienced a change in satisfaction with their principal institutions, 300 people mention service issues most, ahead of higher interest rates on deposits, lower rates on loans, increased convenience, and more products and services. The people who say they are more satisfied today than a few years ago mention improved service as the chief reason, and the people who say they are less satisfied mention poor service.

The most frequently mentioned reason for why someone moved their financial business is the fact that the new institution offers better service.

New imperatives brought by deregulation and increased competition are behind these dramatic shifts in attitude. As consumers see that the Federal depository insurance funds can handle rising numbers of bank failures, they are more willing to accept increased volatility in the system. In a highly competitive environment, people tolerate less in the way of bad service. They know there's something else just as good, if not better, up the block. It might even cost less.

Also, people expect to benefit from deregulation in the form of higher interest rates on deposits and lower rates on loans. It is this expectation that fueled the feeling found by the survey that a majority of consumers think credit card interest rates are too high. Many of those surveyed say they would switch credit cards for a "much lower" rate.

More evidence of deregulation's progress showed up in the survey finding that, within the past two years, an increasing number of Americans have come to believe that diversified financial services firms and nationwide banking companies can meet their needs better than their own principal financial institutions.

Moreover, when consumers are assured of equal safety and convenience, significant percentages of the public say they'd shop for traditional banking services at nonbanking firms like Sears Roebuck & Co., Merrill Lynch & Co., American Express Co., Prudential Insurance Co., and Fidelity Investments.

Sears, the survey finds, is the financial services company most known, liked, and used by American consumers. In just two years, there has been nearly a tripling in the number of consumers who say they buy Sears financial services — from 11% of the public responding this way in 1984 to 30% this past spring.

In addition, people like the idea of companies other than banks getting into the banking business a lot more this year than they did in 1985. There has been a doubling in the number of people saying they think it is very good for consumers if companies other than banks get into the banking business.

There was a sharp decline in the number saying they think it's not such a good idea. About a third say they think it's a fairly good idea.

When this question was asked in 1985, only 10% of the public thought it was a very good idea for companies other than banks to enter the banking business and 45% said not so good. Now, the gap has narrowed to the point where 23% are strongly in favor and 29% opposed.

The *American Banker* survey also found that:

- Most Americans whose financial institutions have been involved in mergers or acquisitions feel positively about the combinations. A fifth of the public does business with at least one financial firm that has recently merged with another.
- Credit unions are the winners and commercial banks the losers when people shift any of their financial business around. Also, credit union members are America's most satisfied consumers of financial services.
- A wide margin of consumers believe it would be appropriate for American Express to own a bank but they're not so sure about some of the other nonbank competitors like Sears Roebuck, Merrill Lynch, Prudential Insurance, or Fidelity Investments.
- Thirty-five percent of consumers say they are likely to accept Discover, the new credit card introduced by Sears that is aimed squarely at the bank credit card market.
- Consumers rate Visa more highly than MasterCard for a range of uses even though the two cards are virtually identical products.
- The number of people using automated teller machines in 1986 has remained flat compared to a year ago, but the number of heavy users — those who say they use banking machines for every transaction — has doubled.

— **Laura Gross**

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3 Americans whose financial institutions have been involved in mergers or acquisitions feel positively about the combinations.

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6 Consumers are getting more sensitive to the quality of service offered by their financial institutions.

7 Credit unions are the winners and commercial banks the losers when people shift any of their financial business around.

9 Diversified financial services firms and nationwide banking companies are inching ahead of grass-roots financial institutions when people choose which best meets consumer needs.

10 Sears, Roebuck & Co. is the people's choice from among nine giant, nationwide financial companies as the financial company that is most well-known, widely used, perceived as best meeting consumer needs and foremost in change and innovation.

11 Thirty-five percent of consumers say they are likely to accept Discover, the new credit card introduced by Sears, Roebuck and Co., and nearly half of consumers are aware the card exists.

12 A majority of consumers think credit card interest rates are too high, and many say they would switch for a "much lower" rate.

13 Although MasterCard and Visa cards are virtually identical products, consumers rate Visa more highly than MasterCard for a range of uses.

14 The American Express card is tops for prestige and travel uses, but it gets low marks for retail purchases.

14 American Express Co. is the only one of five diversified financial firms that people choose by a wide margin to own a bank.

15 Over the past year, the number of people using automated teller machines has remained virtually flat, but the number saying they use the machines for every transaction has doubled.

16 Most consumers think that it is unreasonable for banks to charge them for automated teller machine transactions at a time when more and more banks are levying such fees.

Consumers More Confident of Banking System

They Show Less Concern Over Number of Failures

By MICHAEL WEINSTEIN

NEW YORK — Consumers' confidence in the banking system is up for the second year in a row at a time when bank failures are at a record high, according to a survey commissioned by the *American Banker*.

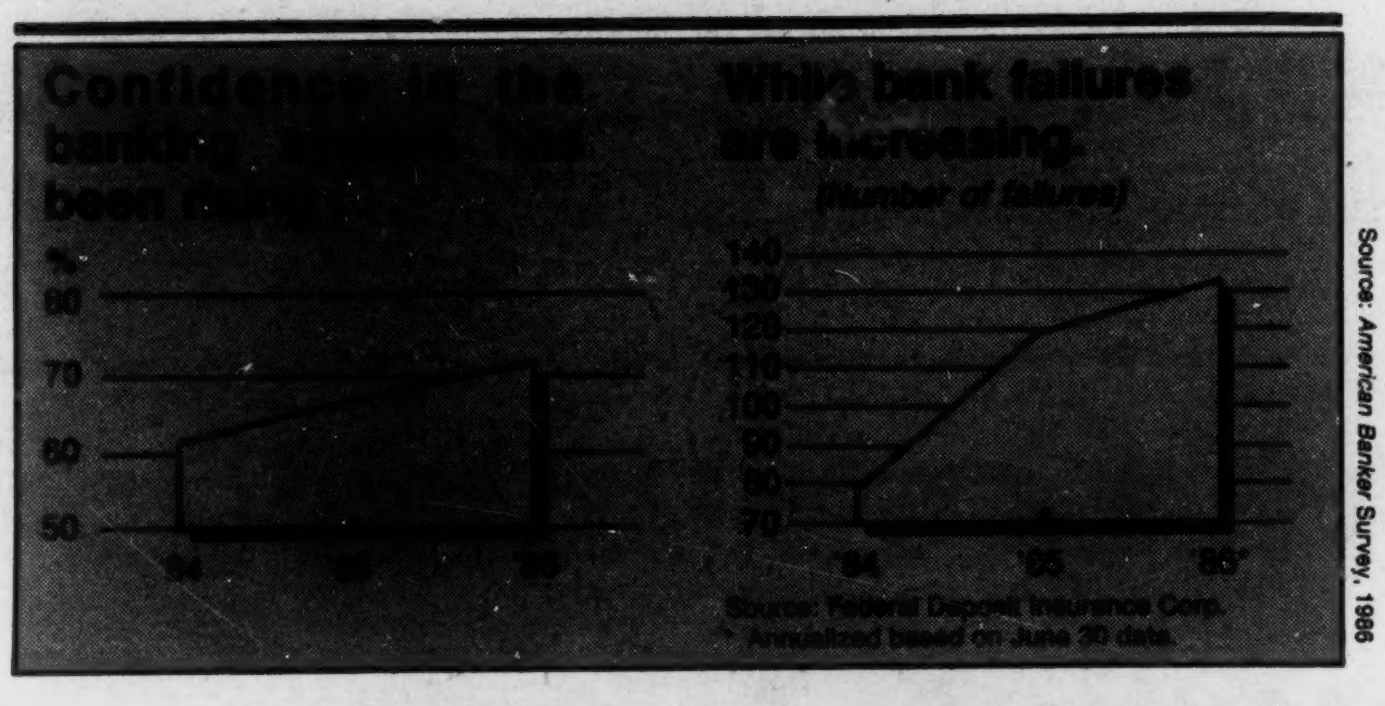
While consumers are aware of bank failures, they express less concern over bankrupt financial institutions this year compared to last year. In fact, consumers tend to react to broad economic issues — such as the health of the financial system — on a highly personal basis.

Meanwhile, analysts say that the banking system is basically in good shape except for pockets of weakness.

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., an opinion research firm in New York City and San Francisco.

"I think it's very significant that the trend is more of the people have greater confidence," says Donald T. Senterfitt, vice chairman of Atlanta-based SunTrust Banks Inc. and president of the American Bankers Association. "I think it demonstrates that the public generally recognizes the stability of the banking system."

Consumers were asked: *How much confidence do you have in the U.S. banking and financial system compared to a few years ago?*



Source: Federal Deposit Insurance Corp.
* Annualized based on June 30 data.

Source: American Banker Survey, 1986

	'86	'85	'84
More	20%	17%	16%
Less	27%	32%	36%
About same	52%	50%	46%
Not sure	1%	1%	2%

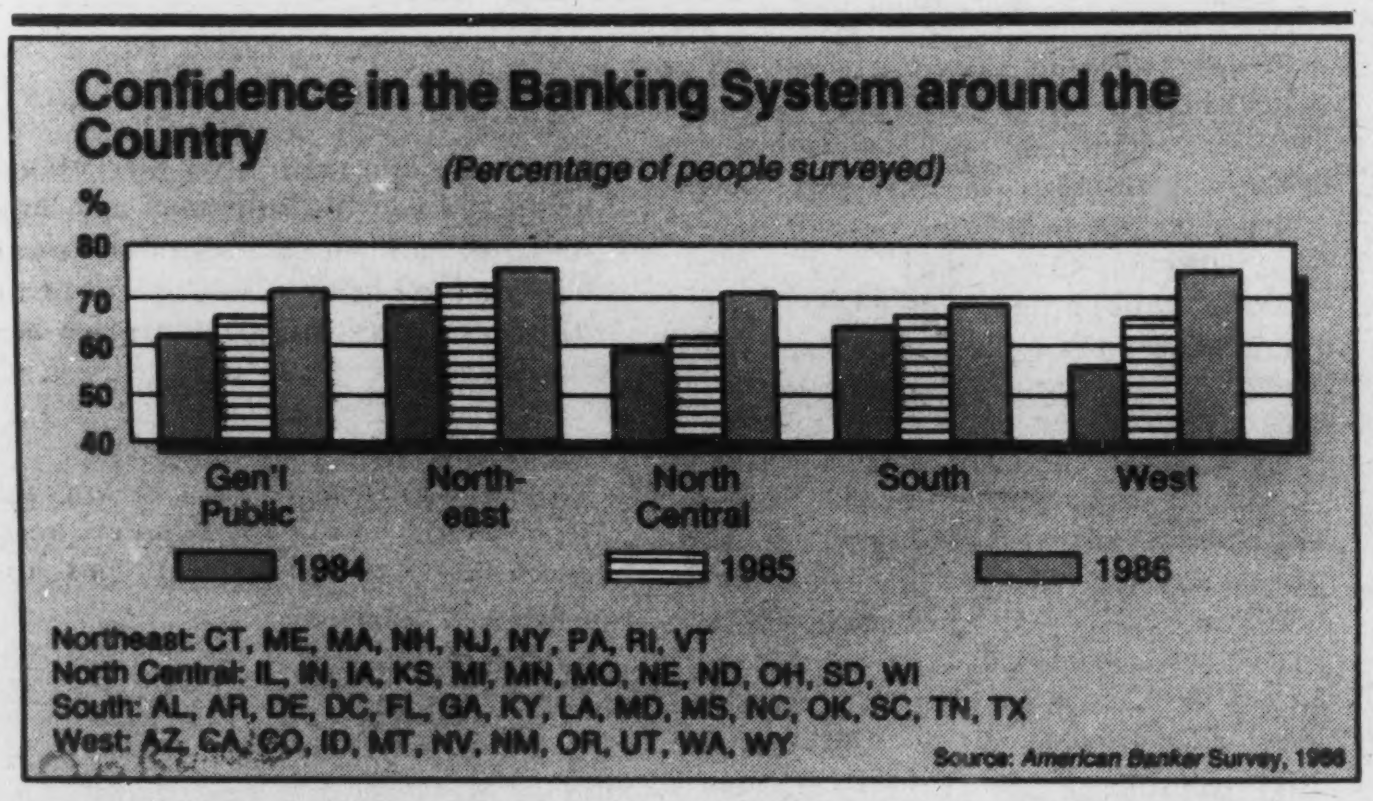
A "very positive level" of consumer confidence has also been recorded during the last year by the Conference Board, says Fabian Linden, executive director of the consumer research center at the Conference Board. The board is a business-funded research group that has been surveying consumer attitudes about the American economy for the past 20 years.

Also, consumers' opinions about the health of the banking system have remained steady, according to the *American Banker*'s survey. They were asked: How healthy do you think the U.S. banking and financial system is?

	'86	'85	'84
Very healthy	15%	14%	14%
Fairly healthy	58%	60%	55%
Fairly unhealthy	12%	15%	15%
Very unhealthy	8%	7%	10%
Not sure	7%	4%	6%

Confidence in the Banking System around the Country

(Percentage of people surveyed)



Northeast: CT, ME, MA, NH, NJ, NY, PA, RI, VT
North Central: IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI
South: AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX
West: AZ, CA, CO, ID, MT, NV, NM, OR, UT, WA, WY

Source: *American Banker* Survey, 1986

Consumers who think the system is healthy most often mention lower interest rates, the stability of banks, and a healthy economy as reasons, in response to an open-ended question.

"Even though there have been some failures, they're mainly very dependable," says a New York State resident.

Others have more personal views. "I haven't gone under yet, so it must be OK," says a resident in western Pennsylvania who rates the system fairly healthy.

The experts agree.

"Taking the country as a whole, it's better than it's been for the last five or six years," observes John J. Lyons, managing principal of Lyons, Zomback & Ostrowski Inc., a New York City consulting firm. "Everything's getting better."

According to his firm's data, over the last three years the nation's biggest banks — those with at least $10 billion in assets — have boosted their profitability, reserves for loan losses, and primary capital, which serves as a buffer for all sorts of losses. Although loan losses have increased, nonperforming loans — an indicator of future chargeoffs — are down, Mr. Lyons says.

"I think it's important to differentiate the pockets of weakness from the overall industry," says James J. McDermott Jr., senior vice president at Keefe, Bruyette & Woods Inc.

Although bank failures have been rising in recent years — they are expected to exceed 150 this year — many of this year's can be traced to two areas: the troubled, energy-based economy in the Southwest and the ailing farm region in the Midwest.

According to the newspaper's survey, consumers in the South, which includes the oil patch, are slightly less confident than those in other regions. But in the north central region, which includes the Farm Belt, consumer confidence is on par with the general public.

"There's enough good news to wash out the bad news to the average American," says David Reichman, whose firm supervised the research project.

Consumers who think the banking system is unhealthy most frequently cite a weak economy, bank failures, and Third World debt.

"We've made too many loans to Mexico," says one Midwesterner. "If they go under, so will we."

"There are too many banks closing lately, and people don't have as much trust in banks as they used to," says a Wyoming resident, who believes the system is fairly unhealthy.

Consumers' perception of bank failures, while noticeable, is not as significant this year as last year. Among those who believe the banking system is very unhealthy, only 1% cite bank failures this year, compared to 14% in 1985.

But last year, failing financial institutions attracted the omnipotent eye of television. Extensive TV coverage of the financial crises in Ohio and Maryland presumably heightened consumer awareness of the issue. In those states, there were questions about the soundness of state insurance funds that guaranteed consumer deposits. That sparked runs on many thrift institutions there.

As in 1984 and 1985, there is a correlation between faith in the banking system and satisfaction with the primary financial institution. Consumers who say they are equally or more satisfied than a few years ago with their principal financial institution are more likely to be confident in the banking system.

"My bank is very friendly and helpful," says one Midwesterner who thinks the banking system is fairly healthy.

"The consumer is just the ordinary citizen who worries about his job, his kids, his wife, his mortgage," says Mr. Linden of the Conference Board. But after comparing the results of the board's consumer surveys to economic developements, he concludes, "The consumer is the best forecaster of all."

What Consumers Say About the Banking System

People who think the system is healthy say

I never heard of a Third National Bank going out of business.

— A young Tennessean

You hear about some banks going down, but I think it is because of poor management. Also, I believe that the government wouldn't let the system go under.

— An urban Californian

The articles reprinted here were written by Laura Gross, Associate Editor, and Michael Weinstein, Staff Writer. Art Direction by Pamela Budz. Charts by Stanford Kay and Teresa Berasi.

For Survey Reprints

Additional reprints of the complete *American Banker* survey series, "How Consumer America Views the Changing Financial Services Industry," can be obtained for $15 each by writing to: American Banker, Attention: Gina Caputo, One State Street Plaza, New York, N.Y. 10004 (212-943-8677). This is the third such *American Banker* consumer attitude survey. Reprints of articles describing results of the previous two surveys also are available for $10 for both.

In addition, the *American Banker* and Reichman Research are making the consumer research survey data available in a variety of other formats, including a hard-copy report, magnetic tape, and a diskette package. Additional information can be obtained from: David Reichman, president, Reichman Research Inc., 3 E. 44th St., New York, N.Y. 10017 (212-986-7709.)

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Most Customers Say They Found Better Service After Their Financial Institutions Were Merged

NEW YORK — Americans whose financial institutions have been involved in mergers or acquisitions seem to feel positively about the combinations.

Most of the people who have experienced this kind of arrangement believe that their financial institutions are either the same sort of places to do business as they were before, or better.

About half of the people who do business with a merged or acquired institution see no change since the merger. One-fourth say the service improved, while 14% say it got worse.

According to the *American Banker's* latest consumer opinion poll, one-fifth of the public say they do business with a financial firm that has merged with another recently.

The survey finds a difference in consumers' opinions about the quality of service after mergers involving local institutions compared with mergers involving out-of-state institutions. While a majority of people say the service is the same, those who feel that the quality of service changed after a merger involving two local institutions are more likely to say it improved. People who sense a change when an out-of-state institution is involved are more likely to say the service became worse.

Consumers whose financial institutions have been involved in mergers tend to think that those bought by out-of-state acquirers offer a wider range of services. More say fees go up when out-of-staters oome in than when local institutions are involved in the merger, the survey finds.

These are among the results of *American Banker's* third national consumer opinion poll. The telephone survey was conducted among 1,028 consumers this spring by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

The data imply that "consolidation has not gotten anywhere near the stage where consumer satisfaction would be impaired by a lack of competition," comments Irving Leveson, senior vice president and director of research for the Hudson Strategy Group, a Marsh & McLennan Companies Inc. subsidiary based in New York.

Mr. Leveson is referring to the trend toward consolidation by merger among the nation's commercial banks. Some industry observers have predicted that, ultimately, this trend could produce a decline in the number of American banks from around 14,900 today to somewhere between 5,000 and 10,000 banks.

Wary legislators and regulators have voiced concern that consolidation will put most small banks out of business, replacing them with a handful of giant firms holding too much power along with most of the banking assets.

But the *American Banker's* findings indicate that, at least so far, the concentration of assets is happening in a fashion that does not upset consumers.

"The *American Banker* findings are in marked contrast to writings by people in national magazines who are constantly painting horror pictures about the adverse effects of mergers on competition," Mr. Leveson says.

Part of the reason, he says, could be the "emergence through a Darwinian process of a group of very successful firms in the second tier — the second 25 largest banks. They are growing very rapidly through merger and in many cases show well above average profitability.

"The *American Banker's* finding that locally merged institutions are seen as more satisfying may reflect the emergence of the superregionals which have come out of the intense local competition successfully oriented toward the needs of consumers in those areas," says Mr. Leveson.

His perspective is shared by others who analyzed the survey findings.

"Local mergers, by and large, are taking inefficient and poor performers out of the market. They're being acquired by good performers, so whatever happens is better," says Alan Fox, a legislative representative for the Consumer Federation of America.

Until the advent of recent regional interstate banking compacts, all out-of-state mergers involved far-away firms coming to the rescue of troubled local institutions. They may have garnered a more negative feeling from consumers for that reason, some observers say.

But the consumers' sense that institutions involved in out-of-state mergers offer a wider range of services is right on target, they add.

"A local institution that's going out of business and needs rescuing by an out-of-state firm clearly won't have been pushing a lot of new products," notes Tom J. Hefter, president of the Financial Institutions Marketing Society of America, a professional society primarily for marketers at thrift institutions.

Access to new services is uppermost on consumers' minds when they talk about what they like about merged institutions, the survey finds. People who feel that their financial institutions are better places since mergers or acquisitions volunteer most as the principal reason that the institution offers more services. Second in importance is a higher level of financial security, and, third, employees who are better able to answer questions and give advice.

Out-of-state institutions may appear to give additional services because they are willing to do different things than local institutions, consumer advocates say. Some out-of-state institutions are more willing than local institutions to change credit standards and grant the innovative kinds of loans that low- and moderate-income people need to develop inner city neighborhoods, they say.

Michael D. Shea, the national campaign director for Acorn, the Association of Community Organizations for Reform Now, says: "A Citicorp or Security Pacific can come in and do those loans and it doesn't frighten them. But if you talk to the locals about things like that, they look at you as if you're talking Greek.

"On the other hand, I'm not sure that, unless the community groups forced them, the out-of-state banks would institute these innovative lending programs," Mr. Shea says.

Acorn describes itself as "a grassroots organization of low- and moderate-income people who've joined together to improve their communities and win a fairer share and greater voice" for all Americans of modest means. The group has 60,000 members and 750 chapters in 26 states.

Mr. Shea appreciates the trend toward interstate mergers because "it gives community groups a little more leverage" when challenging banks under the Community Reinvestment Act, something Acorn does a lot. It is easier to get concessions, Mr. Shea says, because "the stakes are higher in an interstate merger." Challenged holding companies making moves across state lines comply more readily with Acorn requests because they "want to get on with the merger."

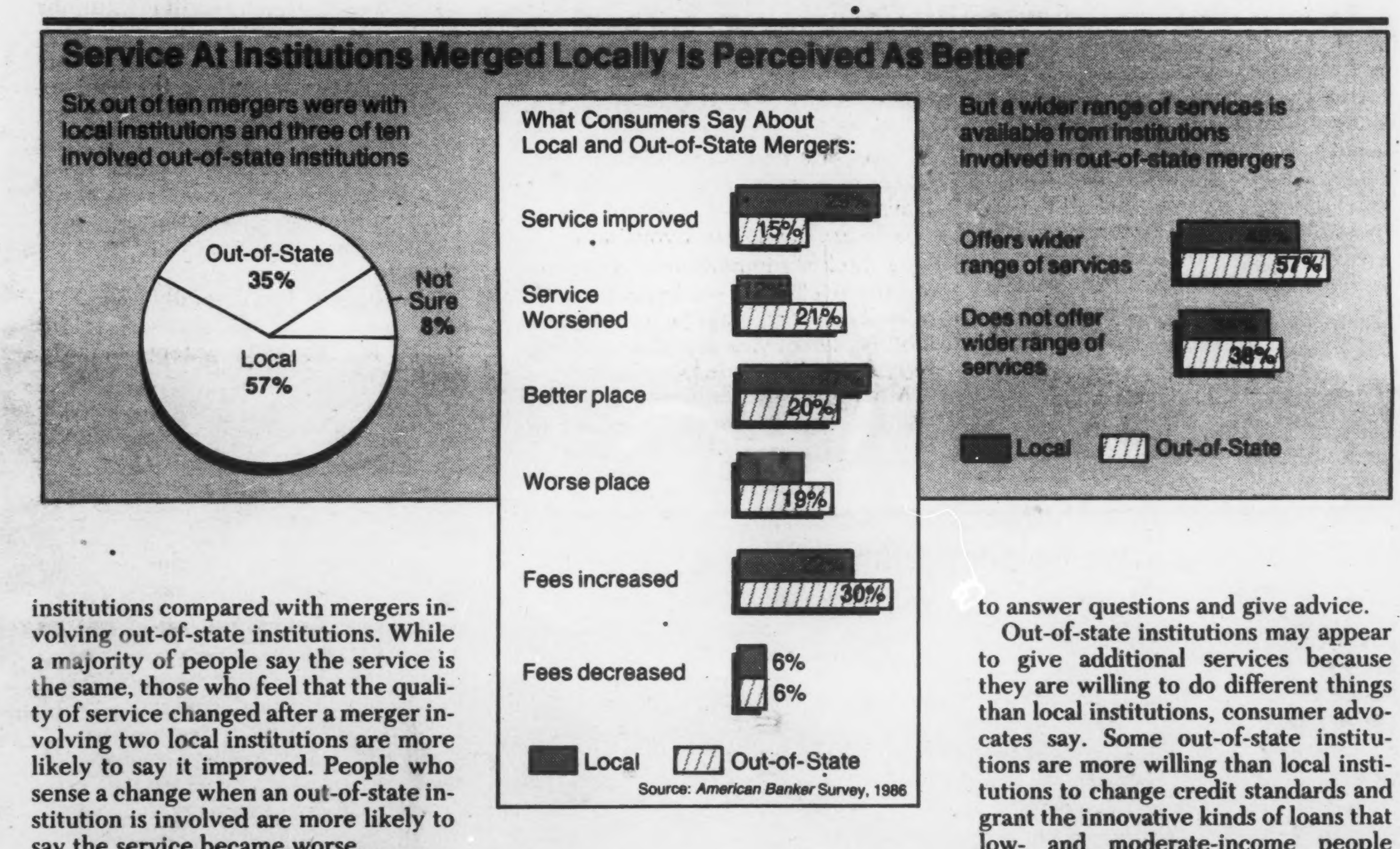
Members of other consumer groups say that, despite the *American Banker's* finding that people are generally positive about mergers, the jury is still out on just how good or bad the trend toward consolidation will be for the nation's consumers.

"It's just too soon," says Elspeth Revere, the president of Woodstock Institute, Chicago, which conducts applied research and designs programs to increase lending in modest income communities around the country.

"Our suspicion is that the kinds of services that require local knowledge and judgment will diminish — like small business and multifamily lending," she says.

William J. Dennis agrees. He is the senior research fellow at the National Federation of Independent Businesses, the largest trade association in the country for small business with more than half a million members.

Consumer: Page 4 ➔



Service At Institutions Merged Locally Is Perceived As Better

Source: *American Banker* Survey, 1986

How the Survey Was Conducted

The *American Banker*'s third annual survey on "How Consumer America Views the Changing Financial Services Industry" is based on 1,028 telephone interviews of a random cross section of the American public.

Reichman Research Inc., a New York- and San Francisco-based marketing and opinion research firm, developed the survey questionnaire in collaboration with the *American Banker's* senior editors. Reichman Research was solely responsible for the interviewing and the preliminary analysis of the survey data.

Interviews were made among a stratified random digit-dial sample, drawn so that all telephone-owning households in the continental United States, listed and unlisted, had a theoretically known chance of being selected.

Heads of households, coheads, and spouses of heads of households, 18 years of age and older, were eligible to be interviewed.

All interviewing was conducted between May 30 and June 18. The typical interview lasted 18.4 minutes.

Before it was analyzed, this sample was weighted to correct any minor deviations from known population characteristics.

The expected sampling error for a survey consisting of about 1,000 interviews is plus or minus three percentage points. This margin of error applies to the total sample. Subgroups that consist of smaller sample sizes have greater margins of error.

The same research firm conducted the *American Banker*'s first two consumer attitude surveys in 1984 and 1985. Additonal information, including a copy of the survey questionnaire, can be obtained from David Reichman, president, Reichman Research Inc., 3 East 44th St., New York 10017 (212-986-7709).

Are Financial Firms Merging As Often as Customers Believe?

NEW YORK — Twenty percent of the public think a financial institution they do business with has been involved recently in a merger or acquisition, according to the *American Banker* survey.

If this is an accurate reflection of the degree of consolidation that has happened so far, it indicates that a major concentration of assets may already have occurred.

But there is a question as to whether the survey findings are an accurate reflection of how much consolidation there has been or only a perceptual stab at reality by consumers who were surveyed.

Because no data were readily available to answer this question, additional research was conducted through telephone interviews with regulators. The data they provided for this article were analyzed by the *American Banker*'s statistics department.

Of the three major financial services providers — commercial banks, savings and loan associations, and credit unions — only the savings and loan industry has amalgamated at a rate anywhere near 20%.

"Five or six years ago there were 4,600 savings and loan associations; today there are 3,500. That's more than 20% of them gone," points out Tom J. Hefter, president of the Financial Institutions Marketing Society of America.

About 14.8% of credit unions were involved in mergers between 1982 and 1985, according to data supplied by the Credit Union National Association. That rate was much greater than the 4.4% rate at which new credit unions were formed. Added to a high level of liquidations, the mergers left a total of 17,581 credit unions at the end of 1985, compared with 19,897 at the end of 1982.

Over the past four years, through yearend 1985, commercial banks have merged at the rate of 2.29% a year — a total of 9.16% for the full four-year period. This includes mutual savings banks which are now insured by the Federal Deposit Insurance Corp.

At the same time, the pace of new bank charters has outstripped the pace of mergers. New charters have occurred at a rate of 2.71% yearly, or 10.83% over the four years ended Dec. 31, 1985. These percentages are based on data supplied for this article by the Federal Deposit Insurance Corp., the Federal Reserve Board, and the Office of the Comptroller of the Currency.

The net effect of the difference between the rate of new charters and the rate of mergers has been to increase the total of banks in America from 14,801 at yearend 1982 to 14,910 at yearend 1985. Even the 290 bank failures which occurred in these years weren't enough to offset the healthy growth rate of new bank charters.

At this pace, predictions of a much reduced banking industry by 1990 or 2000 will fall far short of the mark. Projections abound that the trend toward consolidation will produce a decline in the number of commercial banks to somewhere between 5,000 and 10,000 banks by 1990 or 2000.

In order to precipitate a drop from about 15,000 banks now to 10,000 by the year 2000, banks would have to merge at an annual rate of 3.07% for the next 13 years. That isn't far off the 2.29% rate that's been in progress for the past four years. To yield 5,000 banks by 2000, they'd have to merge at a rate of 8.1% annually. This does not take into account the impact of new charters or liquidations which would affect the actual number of banks left on that date.

One industry observer who once predicted 9,600 banks would exist by 1990 says now that "trying to predict specific numbers is a fruitless exercise." This comment comes from Joel P. Friedman, partner and director of strategic management for Arthur Andersen & Co.

He says the rates of mergers and new bank acquisitions tabulated at the *American Banker* show that "[Sen.] William Proxmire can sleep at night knowing we aren't going to be dominated by five giant institutions."

Like other future-watchers, Mr. Friedman for some time has been attempting to predict the ways in which consolidation will occur in the banking industry. He says most studies he's been involved with envisioned a much more rapid process where states such as Texas would permit statewide branching rather than expansion through the formation of multibank holding companies.

Furthermore, "piecemeal geographic deregulation" and the sorry state of the farm and energy economies have contributed to a slowdown in expected

➜ Continued from Page 3

He says that "the larger and more impersonal banks become, the more difficulty there will be in terms of getting small business services." So far, however, there's been no increase in complaints from businesspeople at smaller companies about the rise in mergers and acquisitions.

Mr. Fox of the Consumer Federation of America says he thinks that "in the short run, communities won't see lots of deterioration and will see improvement in service, if only because acquirers will be more conscious of community fears and will pay more attention to them.

"It's after the acquired bank is more fully integrated into the system when deterioration might start. That's when someone sharpens the pencil and says, 'Hey, we can consolidate all the loan approval officers in one place. We don't need to have them all over the country.' "

That kind of an attitude can be the death knell for a merged institution, according to bankers at superregionals that eschew such actions.

The vice chairman of one of those superregionals is Donald Senterfitt of SunTrust Banks Inc., Atlanta, and president of the American Bankers Association.

He says, "those banks that have the policy of decentralized management are likely to find much more satisfaction among the customers because local people can take care of the full needs of the community."

Often, however, institutions involved in mergers and acquisitions are only looking for growth as a way to produce economies of scale. Employee comfort and consumer attitudes are ignored in the desire to keep costs down and improve productivity.

"When you start thinking of cost cutting, there is a natural tendency to try centralizing some of the operations and certainly the decision making. You have a risk in doing that of forgetting that the point of customer contact can't be centralized," says Joel P. Friedman, partner and director of strategic management for Arthur Andersen & Co., the accounting firm.

Once a new accounts officer himself, Thomas E. Honey, now the president of the Consumer Bankers Association, says institutions that don't spend time on internal training and communication but only approach the merger situation from the standpoint of cost control by cutting staff probably will end up with a cadre of highly irritated employees.

"They'll be so overworked that they'll just say to themselves, 'I don't have time to use my own judgment; I'm just going to follow the rules.' " And that is dangerous, Mr. Honey warns.

It leaves no room for developing the attitude that "your customer is your lifeblood, and you've got to try to understand their needs and work with them, instead of giving them hard-and-fast rules that were only meant to be guidelines to begin with," he says.

What is important, these experts say, is keeping employees comfortable and informed about what's going on. Otherwise, financial companies risk losing customers due to errors employees make out of anxiety about their jobs, a lack of information about new policies, or other factors.

The *American Banker's* survey shows that the comments of these industry leaders are not hollow. Consumers are, in fact, more prone to moving their financial business around when a financial institution they deal with has been involved in a merger. About 31% of those whose institutions were involved in mergers say they moved some financial business from one financial firm to another. That compares with a figure of 22% among the general public who moved some business.

One reason could be a lack of personal service following the merger. In the survey, the chief complaint of the small number of individuals who believe that their financial institutions are worse places following mergers is that they now receive less personal attention than they did before. Slower service and higher fees are other responses volunteered in responses to open-ended questions.

"You would expect that a larger more distant organization with a vast bureaucracy and procedure manuals would be less able to offer personalized service than a small, locally owned and operated institution," comments William M. Isaac, president, Secura Group, a consulting firm based in Wasington, D.C.

That is why — in addition to a "comparative handful of megafirms" — he expects that the future financial services industry also will contain "another type of institution, which'll exist by the thousands, and that's the smaller, retail-oriented firm. It won't be able to offer the range of products or be as competitive on price, but it will offer personalized service, and there are a lot of small businesses and retail customers who'll be willing to pay an extra dollar to get that service."

For any institution caught today in the middle — not mega but too big to be mini — the choice of strategies is more difficult. Industry leaders point out that there is value added at any size in promoting the sense of a caring, personalized institution.

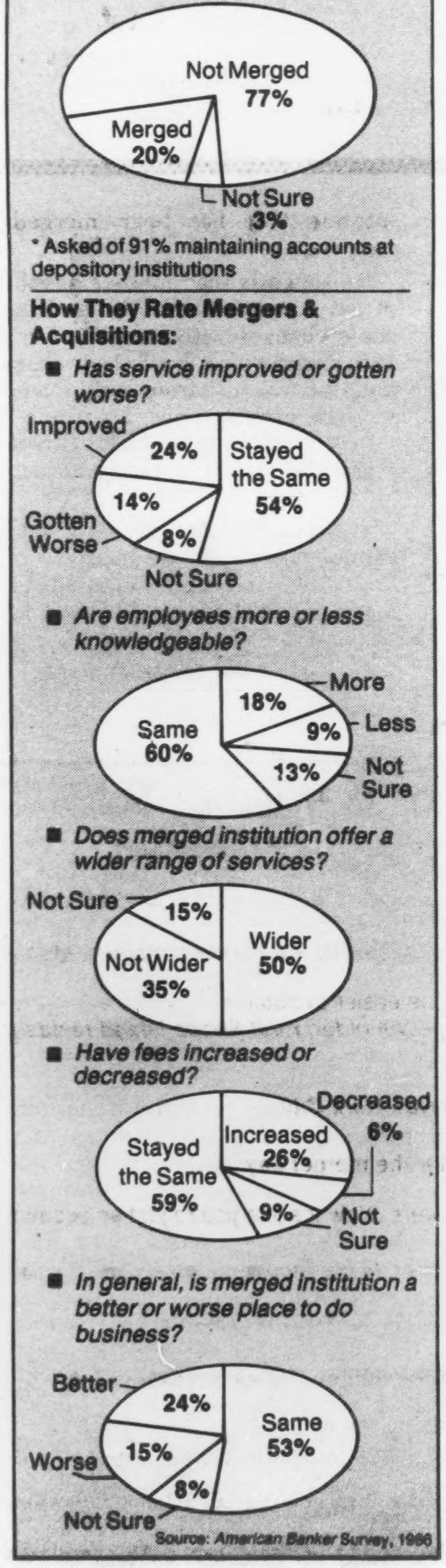
"The greatest success stories that will be written about the superregionals five and 10 years from now will be written about those that haven't gone out and merged just to get new numbers, just to become $30 billion or $40 billion institutions," says C.C. Hope, member of the Federal Deposit Insurance Corp. board of directors and until recently vice chairman of the First Union Corp., Charlotte, N.C.

"The great stories," Mr. Hope says, "will be told about those companies that completely changed their attitude toward the marketplace, that put staffs in place to develop that attitude by creating not only new slogans, but new services, that began responding to the needs of people and helping them achieve their dreams in life."

— L.G. ■

Consumers Are Positive About Mergers and Acquisitions

Two out of ten people say that a financial institution they deal with has been merged or acquired lately*



* Asked of 91% maintaining accounts at depository institutions

How They Rate Mergers & Acquisitions:

- *Has service improved or gotten worse?*
- *Are employees more or less knowledgeable?*
- *Does merged institution offer a wider range of services?*
- *Have fees increased or decreased?*
- *In general, is merged institution a better or worse place to do business?*

Source: American Banker Survey, 1986

How Wells Fargo Absorbed Crocker, Kept Its Customers

NEW YORK — How do you handle a merger so consumers don't get turned off?

Some bankers point to Wells Fargo Bank's acquisition of Crocker National Bank, both in San Francisco, as a good case study.

They say that Wells acted properly in the merger by minimizing employee panic and handling customer confusion before it began.

Employee turnover at acquired institutions usually booms. At Crocker it declined dramatically, from 25% right before the merger was announced, to 5%, according to Lona Jupiter, a Wells Fargo senior vice president.

Part of the reason, says Stephen A. Enna, a Wells senior vice president and personnel director, is that "we spent a lot of time making sure people were treated fairly. From a human resources perspective, it's great to do lots of nice things for people, but the reason we did it is that it made good business sense.

"To the extent you can inform employees of their status and the policies and programs that effect them, you'll minimize disruption in the workplace. That disruption is important because it can, and oftentimes does, lead to customer dissatisfaction," Mr. Enna adds.

The first thing Wells did was solicit the help of Crocker's human resources staff so that, within a week of the announcement, they could issue a special edition of Wells' employee handbook for Crocker workers that spelled out the benefits they'd have as Wells Fargo employees. For those whose jobs were to be eliminated, Mr. Enna says, a minimum of 30 days' advance notice was given and letters were sent explaining the amount of separation pay, where to attend job search workshops, and other issues of interest.

For these people, the goal was "that they feel treated in an equitable fashion," Mr. Enna says. And for employees who stayed, there was a 24-hour hotline to call if they felt concerned or anxious, he says.

Also important was clear, strong, and immediate communication with consumers. Wells interviewed Crocker's customers to see what their concerns were. Ms. Jupiter says the principal concerns were, "Will my branch close and do I have to order new checks."

A letter went out to every Crocker customer explaining that they didn't have to order new checks and giving a phone number to call for further questions. The phone was staffed for six weeks. After the crush of calls during the first two weeks, they dribbled off to just a few.

"We coped with their initial anxiety and nervousness and convinced people to give us a chance. They may have been even more forgiving than they normally would have been because of that," Ms. Jupiter says. ■

— L.G.

mergers, according to Irving Leveson, senior vice president and director of research for the Hudson Strategy Group, a subsidiary of the Marsh & McLennan Companies Inc.

Still, he thinks a figure of 5,000 banks by the year 2000 is not out of the realm of reality: "The error in predicting will be because a larger number of small banks than expected survive, not because of a mistake in projecting what percentage of the business the largest 100 banks will have."

It is the beginnings of early concentration of assets among those larger institutions that Mr. Leveson says the *American Banker* survey may have picked up by finding that 20% of the public does business with a financial institution that has been merged or acquired.

He suggests that another possibility is that people may also have confused name changes with mergers. For the 12th straight year, banks have changed their names more frequently than other kinds of companies, according to a recent study by Anspach, Grossman Portugal Inc., communications consultants.

Additionally, the fact that people generally use multiple suppliers of financial services increases the chance that more of them would have experienced an amalgamation over the course of several years. ■

— L.G.

What Consumers Say
About the Effect of Mergers

People who think things are better after the merger say:

"They have been more accurate with record-keeping, probably because they have better computers and equipment since the merger.

— A middle-aged, suburban Wisconsin college graduate

There is more capital available. Loans are easier to obtain.

— An older, rural Rhode Island resident

They offer more services now.

— A young, middle-income man from New York City

People who think things are worse after the merger say:

Before the merger they knew who you were. Now it's like you're just an account number to them.

— An older, lower-income, rural Pennsylvanian

The prices have gone up so much. To just do business with the bank you have to pay.

— A middle-aged, middle-income, suburban Maryland woman

Regulations are more evident. There is more red tape.

— A middle-income, rural Georgian

It's a bad place to do business because it is a large, less personal bank than when it used to be a small personal bank.

— An older, upper-income, urban Alabama man

Nonbanks Entering Banking: More Consumers Like the Idea

Survey Results Reflect Big Change in Attitude

NEW YORK — Americans like the idea of companies other than banks getting into the banking business a lot more this year than they did in 1985.

According to *American Banker's* new national opinion poll, there has been more than a doubling in the number of people saying they think it is very good for consumers if companies other than banks get into the banking business.

Also, there has been a sharp decline in the number saying they think it's not such a good idea. About a third say they think it's a fairly good idea.

These statistics represent a dramatic shift in consumer attitudes over the course of a single year. When the question was asked by this newspaper in 1985, only 10% of the public thought it was a very good idea for companies other than banks to enter the banking business and 45% said not so good. Now, the gap has narrowed to the point where 23% are strongly in favor and 29% opposed.

This new attitude is evident in responses to open-ended questions probing the reasons why people feel as they do. About 21% of a national sample of consumers living in 1,028 households favors this form of deregulation mostly because it "would create more competition." An additional 9% favors it mostly because "it would provide more opportunities, more of a selection."

These findings come from *American Banker's* third national consumer opinion survey. The telephone poll was conducted this spring by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

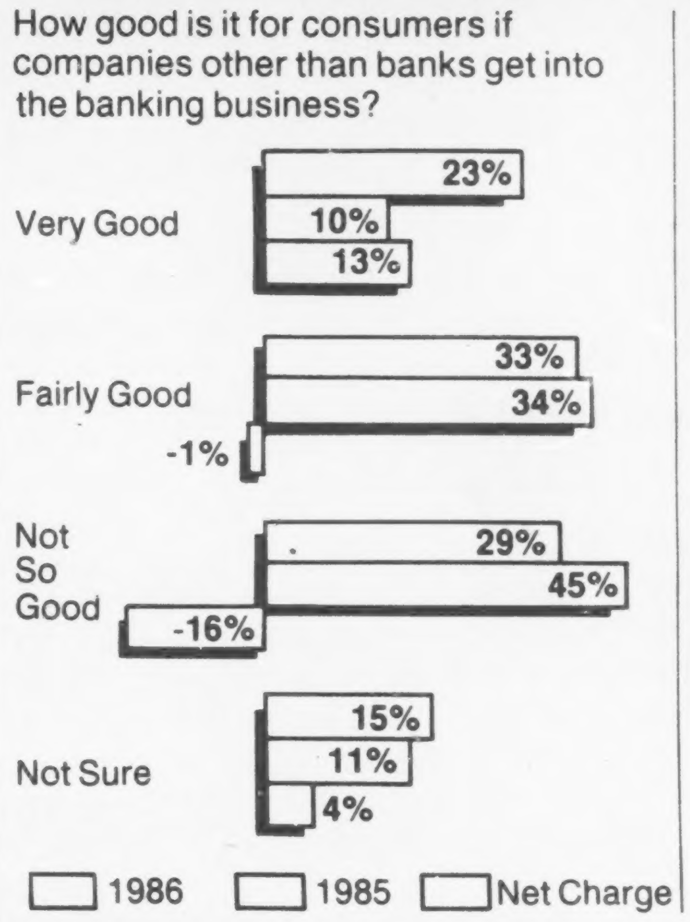
The survey results "may indicate that the general public doesn't give a flip whether it's a bank or a dry goods store" that supplies their financial services, observes Donald Senterfitt, vice chairman SunTrust Banks Inc., Atlanta, and president of the American Bankers Association.

He softens this observation with the observation that "most people still have a higher regard for traditional banks than they do these newer competitors."

But he thinks that the poll's findings underscore "the danger of a significant weakening of the commercial banking system without coherent national policy on banking that includes the ability to offer additional products and services.

"If it's going to be a free-for-all" he suggests, "then why not make it free for all?" Banks, he argues, are not free to compete on an equal footing with nonbank financial companies, a fact which he finds conspicuous in *American Banker's* research results.

Nonbanks In Banking : Good Idea or Bad?



Who's Most Likely To Say Very Good:

18-34 year-olds
Westerners
Men
Credit union members
Finance company customers
Brokerage firm customers
Frequent ATM users

Who's Most Likely To Say Not So Good:

Northeasterners
55-year-olds and older
People whose financial firms merged
Mutual/money fund customers
People with less confidence today

Source: *American Banker* Survey, 1986

Banking Committee Agrees

Senate Banking Committee staff members agree with this analysis of the survey's findings.

Through its inaction, "Congress is condemning the banks to gradually becoming anachronistic institutions that don't have a role to play because they are not allowed to evolve with the marketplace," says Lamar Smith, chief economist for the committee, which is chaired by Sen. Jake Garn, R-Utah.

Current national policy, he says, makes about as much sense as it would have made 20 or 30 years ago to "say General Electric is the only company that can put air conditioning in cars. The marketplace changed. People wanted air conditioning in their cars. What if we would have restricted General Motors or Ford from putting it in?"

Because congressmen are political creatures, many are reluctant to take action on an issue where the marketplace is intensely divided.

"Certain segments of the banking industry have recognized the importance of the need for banks to be permitted to offer new products and services, but others haven't woken up yet," Mr. Smith says. "I would hope a survey like this would galvanize the industry into a strong legislative effort to update the nation's banking laws."

This sense of urgency also is voiced by banking industry leaders.

"Research is now showing the results of the industry's not getting together on the legislative side and the potential impact that will have on the customer base of the future," says John A. Russell, vice president, Banc One Corp., Columbus, Ohio, and president of the

Survey: Page 6 ➔

Service Is Top Reason for Customer Satisfaction

By LAURA GROSS

NEW YORK — Consumers rank good service first when they talk about what satisfies them most about their financial institutions.

They say that being treated well is even more important than getting high interest rates on deposits, low interest rates on loans, or new products and services.

The *American Banker's* latest consumer opinion poll finds that one-fifth of the public is more satisfied now with their main financial companies than they were in the past. One-tenth is less satisfied. In both groups, service issues are mentioned most — by about one-third — as reasons for the change in attitude.

From the more satisfied individuals, better service receives the most mentions; from the less satisfied individuals it is a sense that the institution no longer cares about them that ismentioned most.

Although the subculture is small, less-satisfied consumers who regard a commercial bank as their most important financial institution complain about bad service more than other people.

Also, among the fifth of the public that has switched any financial services business from one provider to another over the past year, the desire to get better service ranks first — ahead of higher rates, lower fees, increased convenience of location, and changes in residence.

These are findings from a nationwide telephone survey of how consumers view the changing financial services industry. The survey was commissioned by the *American Banker* and conducted among 1,028 households this spring by Reichman Research Inc., an opinion research firm based in New Yorkand San Francisco. This is the third year that the poll has been conducted.

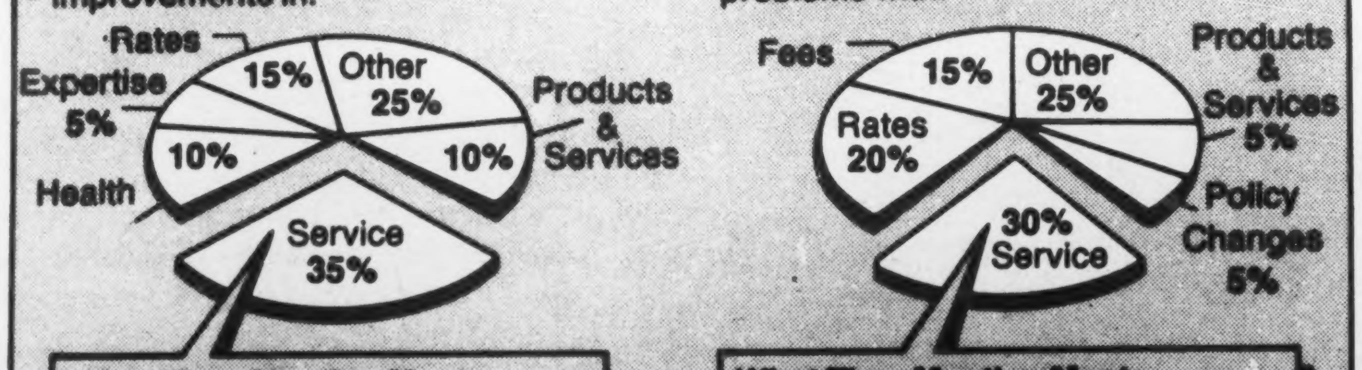
The fact that consumers are sensitive to the manner in which financial services are delivered to them was made clear in open-ended responses to questions probing why about a third have experienced a change in satisfaction and why 22% have moved any financial

Good Service Keeps Consumers Happy*

Three out of 10 people report a change in satisfaction with their principal financial institutions

Two are more satisfied because of improvements in:

One is less satisfied because of problems with:



What They Mention Most:	
Good or better service	9%
More or very helpful	6%
More or very friendly	5%
Fill or serve my needs	4%
More efficient due to computers	4%
Better service, interest rates	4%
Give more personal attention	3%

What They Mention Most:	
Changed attitude/they don't care about me anymore	18%
Too many errors	7%
Service declined after merger	3%
Service declined after switching providers	1%
Too slow to return checks	1%

* Based on responses to open-ended questions

Source: *American Banker* Survey, 1986

➡ **Continued from Page 5**

Bank Marketing Association.

His comments are underscored by the fact that, in the survey, it is younger Americans who are fueling the change in attitude away from "a Depression-era mentality," as the old ways are called by John G. Heimann, vice chairman, Merrill Lynch Capital Markets, formerly the comptroller of the currency and, before that, New York State superintendent of banks.

In 1986, more than twice as many people age 18-34 and 34-54 say they think letting nonbanks in the banking business is a very good idea than said that in 1985. Among people age 55 or more, the increase drops to half again as many.

Industry leaders say that the shift in attitude is a function of the fact that younger people are not set in their ways. They tend to shop around more. In fact, they may already have used nonbanks for financial services and found the experience satisfactory.

"This shows that, more and more, people trust these companies. It indicates that deregulation has really taken hold. The reservations people had are beginning to disappear," comments C.C. Hope, one of the directors of the Federal Deposit Insurance Corp., and until recently vice chairman of First Union Bank, Charlotte, N.C.

Additional survey data tend to support the idea that America's increased desire for deregulation could be a function of increased usage of nonbanks. For example, people with Sears, Roebuck and Co.'s Discover card — who generally use a wider variety of financial institutions than the rest of the public — tend to more strongly favor the idea of nonbanks in the banking industry. The *American Banker* survey contained about 70 people with Sears' Discover card.

The same is true also of Yuppies and upscale baby boomers — individuals age 25-44 living in dual-income households where the earnings are in excess of $40,000 annually. There were 72 people with these characteristics in the survey. These people are far more likely than the public to use diversified financial firms like Sears, American Express Co., Merrill Lynch & Co., Prudential Insurance Co., and Citicorp. They are also more likely to approve of the idea of nonbanks in the banking business.

About 63% of this group say they use one of a group of nine national giants compared with 48% of the general public. In addition to the diversified firms mentioned above, the list also includes Bank of America, the Fidelity group of mutual funds, Beneficial Corp., and Charles Schwab & Co.

There is every indication that they like dealing with these companies. When asked to choose between their most important or principal financial institutions and one of the giants as to which best meets their needs, people in this market segment are much more likely to choose a giant than their own institutions. More than half choose something other than their most important financial provider, while among the general public, the trend is in the opposite direction with more choosing their own institutions than choose a giant.

Asked to choose which is most in the forefront of change and innovation, these people are three and a half times as likely to name a giant as they are to name their own institutions, compared with the public, which is twice as likely to name a giant.

Despite a sense that the grass is greener on the other side of the deregulatory fence, more people in this group than in the general populace say they are very satisfied with their most important or principal financial supplier. However, they tend to choose this designation for commercial banks less frequently than other people.

'Reflects Attitude Toward Banks'

This factor may lend credence to comments from consumer advocates who say the shift in consumer attitudes "largely reflects the attitude of people towards commercial banks," says Michael D. Shea, national campaign director for Acorn, the Association of Community Organizations for Reform Now. "Low and moderate income people don't like banks. Heck, upper income people don't like banks. Lee Iacocca tears them apart."

He points out that low and moderate income Americans "have been increasingly cut out of the banking system" by high fees and policies that discourage their business.

The *American Banker* survey has nothing to offer on this point. It finds that fewer people earning under $20,000 than earning more than $50,000 say it would be very good for consumers if nonbanks got into the banking business, but fewer also say it would be not so good.

The survey does reveal that people earning under $20,000 are the least likely of any income group to use the commercial banking system: 62% use it compared with 82% of individuals earning $50,000 or more. There has been little change in these percentages since 1984.

Other polls have found that low-income people tend to feel deregulation isn't such a good idea, while upper income people are much more positive.

According to David Williams, vice president, Cambridge Reports Inc., Cambridge, Mass.: "People in the upper income and upper education levels think they've benefited from it. They are the people with money who can invest in new certificates of deposit and money market accounts. Low-income people don't feel that way. They are also more sensitive to branch closings." He says that black people, in particular, seem to think deregulation hasn't been good for them.

All low-income Americans don't feel that way, however, Mr. Williams says. A Cambridge Report survey from four years ago showed that 10% of the public would do their banking business at Sears or J.C. Penney Co. Most of them were lower income, lower educated residents of rural areas.

Acorn's Mr. Shea says that this remains true today. Among Acorn's members, predominantly low- and moderate-income people, "many, we know, would not mind having Sears or Penney provide these services."

But, he warns, a level playing field doesn't only mean equal privileges for all competitors, but equal responsibilities as well.

Acorn is currently doing a study that shows that "as Sears moves further into the financial services area, it is moving away from the low- and moderate- income base of people who have made it what it is today."

Sears is closing inner city stores the same way banks are closing inner city branches, he charges.

"We'd have no problem with them in the financial services area if the Community Reinvestment Act applied to them," he says, noting that getting the law to apply to Sears is on Acorn's agenda.

Fair is fair. ■

— L.G.

What Consumers Say

About companies other than banks getting into banking

"People who believe it's a very good idea say:

I think Sears is doing a great job of financing. So maybe other companies would do an equally good job.

— An urban Georgia college graduate

Then the banks wouldn't monopolize all of the money for such high rates.

— A wealthy, middle-aged rural New Jersey woman

They are better to deal with and they do a lot of good for the consumer because they are used to doing for the consumer. Sears would be great in the banking business.

— An older, low-income California urbanite

I feel they would have more money to lend out.

— A rural Louisiana high school graduate

Competition is good for companies. If they diversify the company, consumers can more easily deal with them.

— An upper-income Michigan urbanite

business from one firm to another over the past year.

These results run contrary to the popular belief that consumer inertia and apathy will always reign supreme over irritation about long lines, high fees, surly or incompetent employees, and other factors that bother people about their financial institutions.

"In the past it has been thought that inertia prevents consumers from changing financial institutions simply for service-related reasons," comments David Reichman, whose firm conducted the study. "These findings appear to indicate otherwise."

Most Are Satisfied

He makes these observations even though the poll finds that an overwhelming majority of Americans are satisfied with their financial institutions. More than five in 10 say they are very satisfied, and about four in 10 say they are somewhat satisfied. Most people are just as satisfied today as they were in the past.

Other industry observers concur that this high level of satisfaction provides no support for the notion of complacency in a society that is clearly becoming more sensitive to quality of service.

"Research tells us over and over that value and quality today go way beyond the specific thing you're buying," says Barbara Feigin, executive vice president, director of research and marketing services for Grey Advertising Inc., New York. "In restaurants, supermarkets, airlines, all of the service industries, we're selling an experience, not a product. People do not have the time, inclination, or money to bother with bad service so they figure they'll go somewhere else and get what they want.

"We're just dealing with a much smarter and demanding consumer who has much higher standards," she adds. "Through television, people know there's more to be had."

Also, she mentions the fact that more women in the workplace means there are constraints on the amount of time available for consumers to accomplish daily tasks. "The time spent getting the services you need has become very valuable and you want it to go well. You've no time for hassles, problems, and headaches. You just want to get it done and feel good about the experience," Ms. Feigin says.

Perhaps surprisingly, the *American Banker* survey finds that women who moved any financial services business last year are less likely than men who moved their business to mention service issues as the reason. Women may, in fact, be less sensitive to poor service.

Irving Leveson, senior vice president and director of research for the Hudson Strategy Group, a Marsh & McLennan Companies Inc. subsidiary, agrees: "We have been arguing for a long time that quality of service is a much more important factor than has been recognized. As society becomes more affluent, attention to service will become more and more desired."

Since this is the first year *American Banker* asked people why they had experienced a change in satisfaction and why they had moved any funds around, it is impossible to use the data to show an increasing service sensitivity.

Backed by Other Polls

But, in addition to confirming comments by industry observers, the results dovetail with research done by other pollsters.

"When we recently surveyed people about whether certain institutions were efficient or inefficient, their response suggested that they based their determination on the level of service they were receiving," says Fabian Linden, director of the Conference Board's consumer research center.

He attributes this to "an enormous upgrading in the postwar generation's educational level. These are the people who've moved into the mainstream now."

Cambridge Reports, the Massachusetts-based public policy research firm, recently found that 44% of 1,500 people interviewed nationwide chose "convenience or ease with which you conduct your business" as the principal reason for choosing a financial services firm. The second choice — at 28% — was "quality of personal service," and the third — at 22% — was "the range of financial services."

David Williams, vice president at Cambridge, says that "convenience or ease with which you conduct your business" probably involves consumer concerns over convenience of location as well as quality of personal service.

In the past, convenience of location has been thought to be the key motivating factor for choosing one financial services firm over another. Some industry analysts still say it is.

Jack Whittle, chairman of the Chicago-based community bank consulting firm of Whittle and Hanks, says that "in most communities, financial services companies are pretty much all equal in convenience: They're all on one of the corners downtown. If they're equal in convenience, then people will begin looking for something else to distinguish them. And service is a whole lot of that."

Of the three main types of companies offering banking services — banks, thrifts, and credit unions — the *American Banker* survey finds that commercial banks seem to have the greatest problem in the area of service. People calling a commercial bank their most important financial institution who are less satisfied today with their bank are the ones who most often mention that they feel these firms have a changed attitude, that they no longer care about consumers.

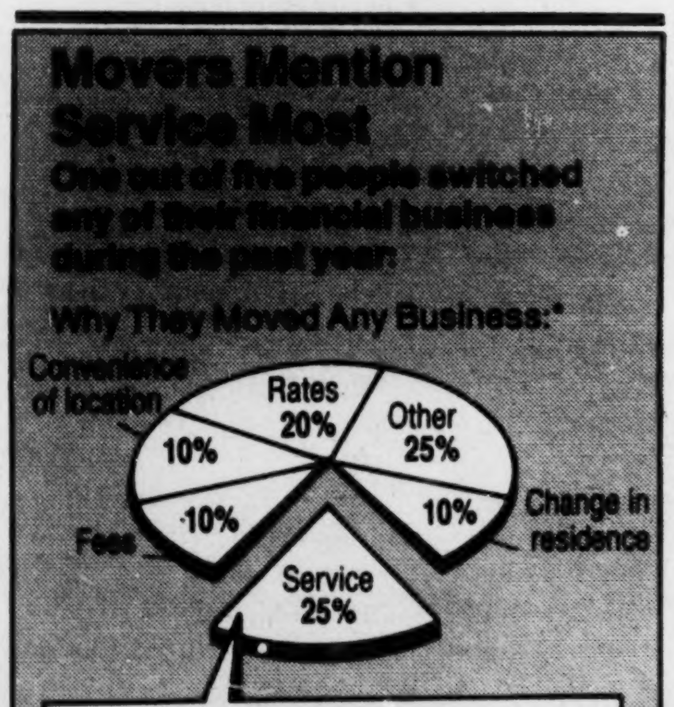
About 65% of the individuals who are in the less-satisfied category call commercial banks their most important financial institution, but the number of people in this subgroup is very small.

Also, the "more satisfied" bank customers less frequently mention improved service as a reason for their satisfaction than do the comparable group of thrift customers. That could mean banks give people less of a reason to mention better service.

Movers Mention Service Most

One out of five people switched any of their financial business during the past year:

Why They Moved Any Business:*



What They Mention Most:

Better service at new institution	9%
Too many errors	9%
Better/friendlier service	6%
Computer problems	1%

* Based on responses to open-ended questions

Source: *American Banker* Survey, 1986

Mr. Whittle says: "People generally feel banks haven't caught on to service. They don't understand waiting in line. If you have to wait in line, it's bad service. If an institution closes at three, it sends a signal that they don't care about your business. The grocery stores are all open all night."

Other industry analysts suggest that another reason why banks are in this fix is that they've got the highest level of teller turnover among the three main types of banking companies.

"Not only is today's consumer changing but so is the person behind the teller counter. In addition to a customer base that's more alert to the quality of service, society has a shortage of young people willing to work for low wages. Turnover rates must be enormous," says the Conference Board's Mr. Linden.

He is right. When it comes to teller positions, bankers report that typical turnover ranges anywhere between 20% and 60% annually, depending on the institution's location. There is less teller turnover at thrift institutions and much less at credit unions, according to Frank Kelly, managing director of the Bank Administration Institute's human resources program services division.

Also, Mr. Kelly points out, credit unions generally pay more for tellers than banks or thrifts, and, as a result, he says, they get a higher caliber of individual willing to work those jobs. Typical pay scales for nonsupervisory tellers at commercial banks in 1985 ranged from $9,200 to $13,658, he says.

The high rate of turnover produces a constant stream of new employees who don't know customers. That means longer waits on line for consumers and, possibly, more annoyance as signature cards are checked or drafts cleared with supervisors prior to cashing.

Will people actually close down a financial relationship because the teller doesn't smile or call them by name?

The experts disagree over exactly what causes people to leave one financial institution for another: one horribly irritating event that may go unresolved, or a series of dissatisfying experiences. Probably, it can be either.

"People might not leave just because the teller doesn't smile, but they will when you start adding all of those negative straws on the camel's back," says Thomas Honey, president of the Consumer Bankers Association, the Washington, D.C.-based trade group.

'Very Service Sensitive'

Who leaves? The survey finds that as income increases, so does the likelihood that people have moved some part of their financial business. Also, users of brokerage firms and mutual or money market funds are also more likely than the public in general to have moved some money around. Younger people, aged 18-34, are more likely than older people, aged 55 and up, to have shifted funds.

Despite the perception of the public, bankers "are very service sensitive. There isn't a bank I know that doesn't constantly deal with the issue of how to improve service. They try hard, harder than the market gives them credit for," comments G. Lynn Shostack, president of the Coveport Group, a New York-based consulting firm, and formerly a Bankers Trust Co. executive.

Some of the consumers seem to notice, and they're just those people commercial bankers appear to want most as customers — the affluent.

Two years ago, 44% of consumers who earned $30,000 or more and who identified commercial banks as their principal institutions said they were very satisfied. That compared with 58% who were very satisfied in the group earning $30,000 or less.

Now, there has been a major change. The trend has reversed. This year 58% of consumers earning more than $30,000 say they are very satisfied with their commercial banks, compared to 50% earning under $30,000 who say the same.

It's a law of physics that, for every action, there is an opposite and equal reaction. Bankers who are "demarketing" to less-affluent segments of the population should be aware of the impact their policies may be having on the rest of America. The survey finds that less-satisfied people are more likely than those who are more satisfied or equally satisfied to have lost confidence in the banking and financial system. ■

How Credit Unions Have Lured Business Away from Banks

Highest Satisfaction Found Among Members

NEW YORK — Credit unions are the winners and commercial banks the losers when people shift any of their financial business around.

Moreover, for the third straight year that *American Banker* has conducted its national opinion poll, credit union members are America's most satisfied consumers of financial services. Compared to customers of commercial banks, one-third as many credit union members say they feel less satisfied now than in the past with their credit unions.

Among the fifth of the public that moved any financial business over the past year, the *American Banker* survey finds that credit unions made the strongest gains, picking up a net 8% of the moved business. Second were nonbank financial services companies, gaining 7%. Commercial banks lost 15%, and thrifts — savings banks and savings and loan associations — lost 2%.

Also, among consumers who moved business, it is credit unions whose members tend most to consolidate funds at credit unions. While 18% of credit union members who moved funds took money from credit unions, 67% brought money into these institutions for a total net gain of 49%. Banks experienced a net gain of 3% among people who call banks their most important or principal financial institutions. Thrifts gained 15% among movers calling those institutions their principal financial intermediary.

Seven out of 10 people use commercial banks, making them America's most popular financial institutions. Nonetheless, the findings raise questions about the success of recent bank efforts to get consumers to consolidate

Credit Unions: Page 8 ➸

➞ Continued from Page 7

all of their financial services business in one place. It seems that, of the three principal depository institutions, credit unions are doing a better job — at least as an industry — in the relationship banking battle.

These findings come from a nationwide telephone poll of 1,028 households commissioned by the *American Banker* and conducted this spring by Reichman Research Inc., an opinion research firm based in New Yorkand San Francisco.

"The results indicate that commercial banks are the big losers in the battle for new consumer business — presumably because of noncompetitive rates, poorer customer service, or both," notes Molly Totoro, project director, Reichman Research, New York.

The survey shows that one-stop shopping for financial services is not yet the consumer's choice no matter which provider someone calls most important. A third of the public uses more than four financial services companies and only about a fifth uses just one. Credit union members are more likely than most people to use a variety of suppliers.

Regardless, credit union members who've experienced a change in satisfaction with their credit unions in the past year are five times as likely to say they are more satisfied as less satisfied. Bank customers are just about as likely to feel one way as the other about their banks. Those calling thrift institutions their principal or most important financial institutions are about twice as likely to say they are more satisfied as to say they are less satisfied.

The data show that credit union members are still the country's most satisfied financial services consumers. The not-for-profit depositories have held that distinction over the three years *American Banker* has conducted this survey.

"Credit unions are always the big winners across the board because they are extremely dedicated and very aggressive. When you are a member of a credit union, you own it, and that makes them the stiffest competition banks have," comments Jack Whittle, chairman Whittle and Hanks, the Chicago-based consulting firm.

Especially in the West, he adds, in states such as Utah, Nevada, and California, "some cities are completely dominated by credit unions. And they are very good when it comes to service, rate, and image."

The trend toward using credit unions is confirmed by the "rapid growth in credit union assets and the increasing interest in services offered at the workplace," notes Irving Leveson, senior vice president and director of research, Hudson Strategy Group, a Marsh & McLennan Companies Inc. unit.

According to the Credit Union National Association, assets at the nation's 17,383 credit unions grew 22.8% to $154.1 billion in the year ended May 31, 1986. Savings increased 23.4% and loans were up 12.4% over the same period.

Even though most credit unions are still small, limited-service organizations, CUNA data shows that more than half of the nation's 53 million credit union members belong to credit unions offering a wide range of services.

The Changing Image of Credit Unions

"The old image of credit unions as small, limited-service institutions is changing quickly," according to a recent CUNA analysis.

Credit union members seem to appreciate that. Among the 26% of people calling credit unions their most important financial institutions and who say they are more satisfied with these providers today than in the past, a broader range of services ranks first over improved service and better interest rates as reasons for the change in attitude. The base of individuals calling credit unions their most important financial institution is small — 13% of people surveyed — and the number of those saying they are more satisfied, even smaller — only 35 people.

The fact that credit unions are net gainers among people who've moved money is no surprise to William O. Adcock Jr., chairman, Synergistics Research Corp., Atlanta. He points out that commercial banks have historically held the majority of the consumer market, at least when it comes to checking accounts. Credit unions and thrift institutions have everything to gain in terms of consumer market share while banks have everything to lose, he says.

Thrifts place second to credit unions as net gainers of moved funds and are the only one of the three main financial services providers to have experienced a consistent downturn in the number of consumers saying they are less satisfied over the three years *American Banker* has conducted this survey.

One reason for that — and for the fact that "the thrift industry has been in such terrible financial shape is that they didn't ruthlessly automate and standardize. They maintained a personal service focus," says G. Lynn Shostack, a former Bankers Trust Co. executive who now heads her own New York services consulting firm, the Coveport Group.

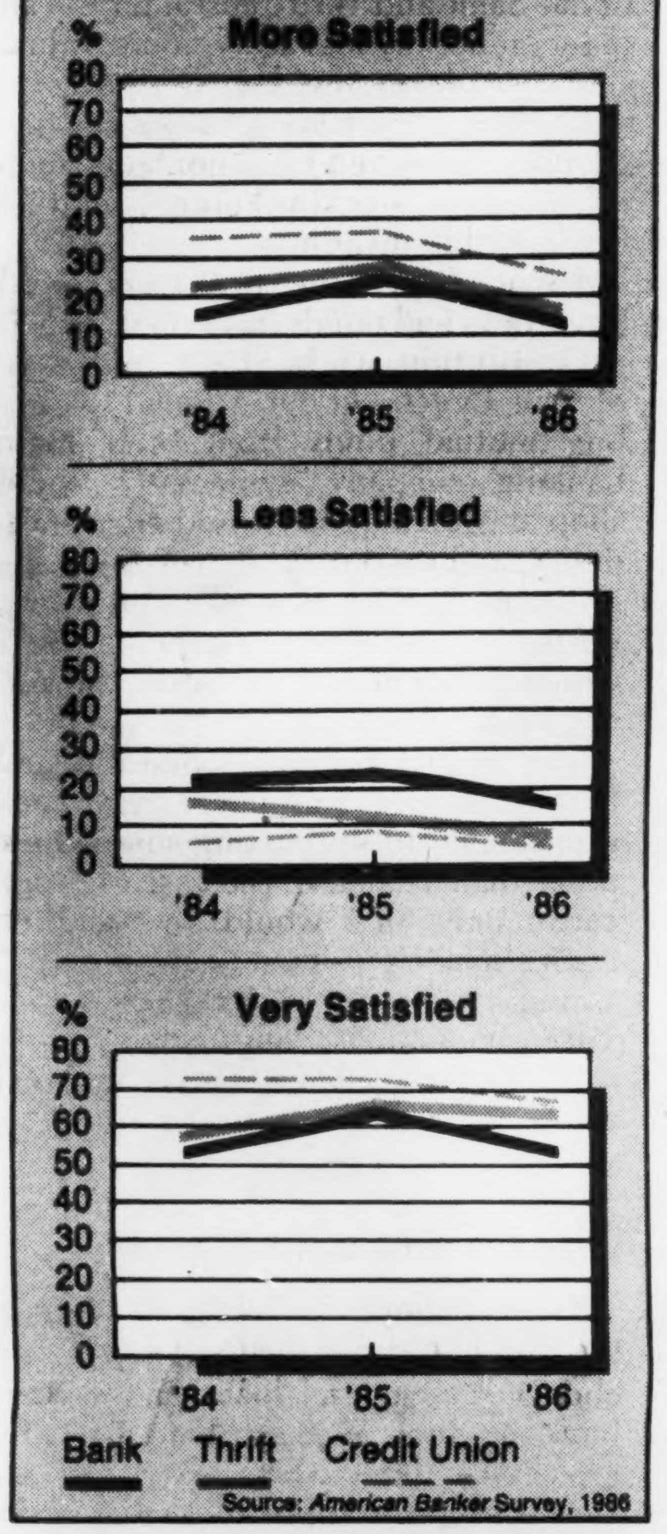
"The loyal customer base they've built through the tradition of friendliness is now buying the new services they're permitted to offer. That's probably why fewer are less satisfied," adds Thomas E. Honey, president of the Consumer Bankers Association.

The survey finds that older people who've experienced a change in satisfaction tend most to say they are less satisfied today. People living in small towns and rural areas say they are less satisfied about as often as they say they are more satisfied. And, although the numbers are small, it appears that people whose satisfaction changed and who use stockbrokers and mutual funds tend to say it changed for the worse, not the better. ■

— L.G.

Trends Over Time

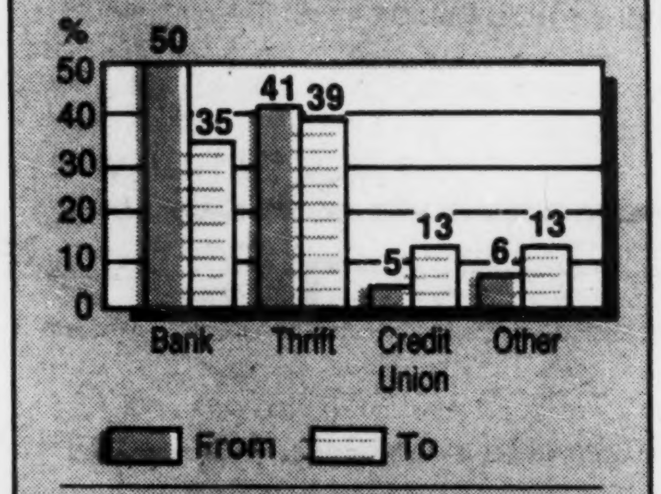
(Percentages of respondents commenting on satisfaction with their primary financial institutions).



Source: *American Banker* Survey, 1986

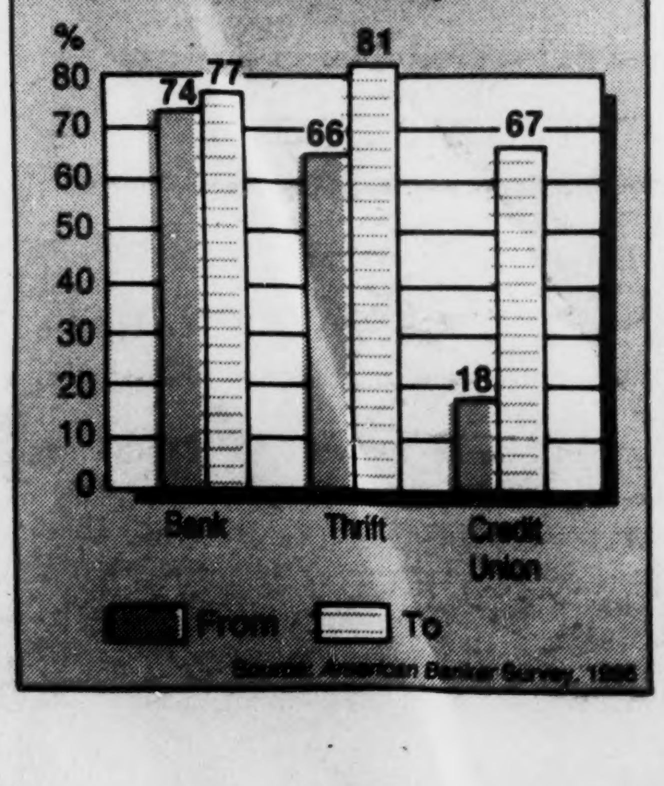
Where the Money Went:

22% of the public moved any financial business:



Relationship Banking: Who's Winning?

People calling a bank, thrift or credit union their principal institution moved money:



Source: *American Banker* Survey, 1986

More Consumers Say They Feel Neutral About Service at Financial Institutions

Fewer Say Service Improved And Fewer Find That It Declined

Data from the *American Banker* poll show that since 1985 there has been a decline in the number of people saying they are very satisfied with all of the federally insured providers of financial services — commercial banks, thrifts, and credit unions.

Also, fewer people say they are more satisfied and fewer say less satisfied today. In general, most people lean toward the neutral designations of equally or somewhat satisfied.

On its face, that trend would seem positive.

"When you think about it objectively, this should be an act which leaves you completely neutral," says Fabian Linden, director of the Conference Board's consumer research center.

"It's not like you're going to the doctor or dentist where it's so important how good a job they do. There's no reason to leave the bank in a state of euphoria because the teller took your deposit slip with a smile or walk away as a manic depressive because she got surly over your not signing your name right or crossing a 'T' or putting the account number under the endorsement," he adds.

Other industry observers say that the increasing neutrality on the part of consumers could mean financial services providers are giving sufficient service to retain the business of most people but not enough to make them as happy as they have been in the past. Those observers can't say whether it is indicative of a more discriminating customer base or of customers that are so used to inferior service that they just don't expect anything better.

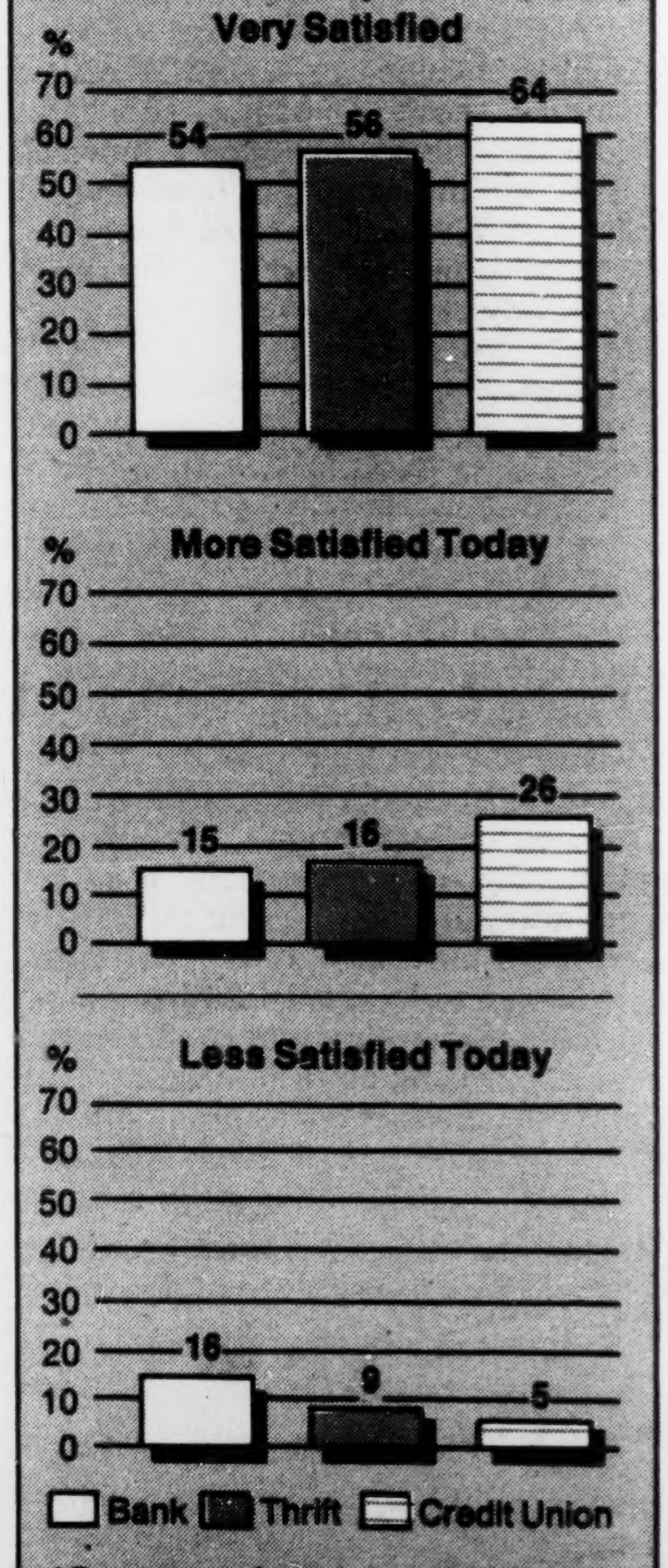
Some people think that the downturn in deposit interest rates over the past few years is behind the increase in neutrality.

"It's hard to hate the economy. You've got to be mad at somebody. It might as well be the banker," suggests William O. Adcock Jr., chairman, Synergistics Research Corp., Atlanta.

◆

— L.G.

How Consumers Rate Their Main Banking Institutions*



* Responses of people naming each as principal institution

Source: *American Banker* Survey, 1986

More Americans Think Financial Services Giants Provide Better Service Than Their Own Banks

NEW YORK — Within the past two years, an increasing number of Americans have come to believe that diversified financial services firms and nationwide banking companies can meet their needs better than their own principal financial institutions.

The *American Banker's* nationwide opinion polls in 1984 and 1986 asked consumers to choose which they think best meets their needs — the financial institution they name as most important to them or one of nine diversified financial firms such as Sears Roebuck and Citicorp.

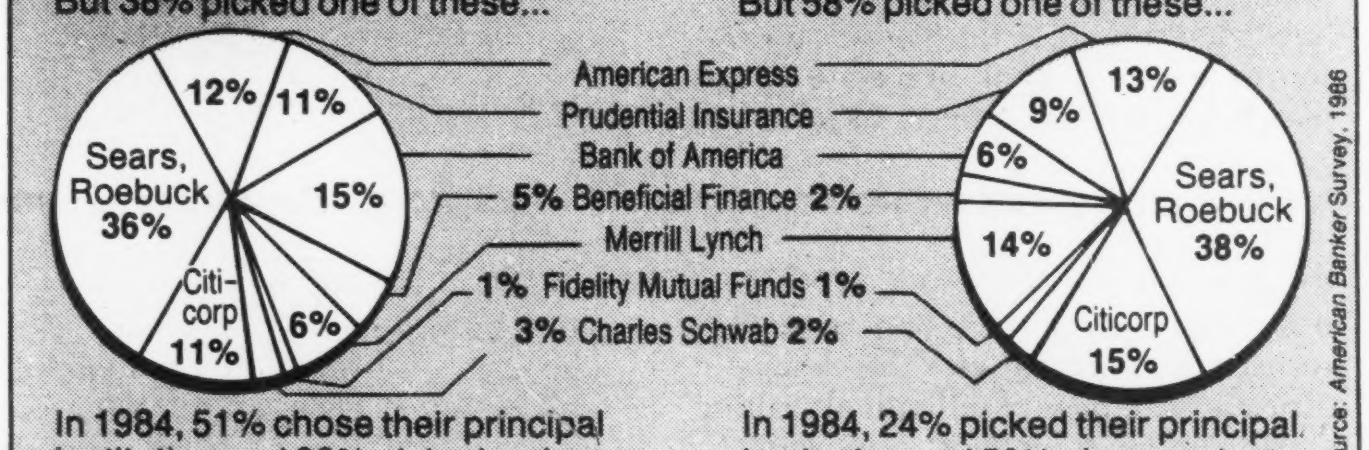
In 1984, they chose their own principal institutions over the nationwide giants by a substantial margin of 21%. Now, according to the latest poll, that gap has narrowed to a slim 8%.

On another measure — which financial institution is most in the forefront of change and innovation — primary banking firms picked up a few percentage points since 1984 but a majority of people still choose a nationwide banking or diversified financial services firm over their own main financial supplier.

Consumers Compare Their Financial Institutions With the Giants

46% said their principal financial institution best meets consumer needs.
But 38% picked one of these...

30% said their principal institution is most in the forefront of change and innovation.
But 58% picked one of these...



In 1984, 51% chose their principal institution and 30% picked a giant

In 1984, 24% picked their principal institution and 59% chose a giant

Source: American Banker Survey, 1986

Moreover, when consumers are assured of equal safety and convenience, significant percentages of the public say they'd shop for traditional banking services at nonbanking firms like Sears, Roebuck and Co., Merrill Lynch & Co., American Express Co., Prudential Insurance Co., and Fidelity Investments.

A fifth of the consumers say they'd seek a checking or savings account at one of these nonbanks; 15% would look to one of them for a mortgage; 14% for an installment loan, and 23% for an individual retirement account.

These findings are from the *American Banker's* latest national opinion poll. The survey was conducted by telephone among 1,028 households this spring by Reichman Research Inc., an opinion research firm based inNew York and San Francisco.

The data seem to point to dark clouds on the horizon for grass-roots banking companies. Especially ominous is the finding that it is younger Americans, under the age of 35, who are most eager to shop at a nonbanking firm for banking services. They are also highly likely to choose a nonbank or national banking company over their primary banking institution when asked which best meets consumers' needs. People age 18-24 are particularly likely to choose a nonbank or nationwide banking firm over their principal financial services provider.

One of the most likely groups to choose a nationwide supplier over local financial providers are people age 25-44 living in dual-income households where the wages are $40,000 a year or more. These people are the Yuppie era's favorite target market. Already, almost twice as many choose a diversified financial firm as choose their primary banking company when it comes to which best meets the needs of consumers such as themselves. The 1986 poll contains 72 people with these demographics.

'Handwriting on the Wall'

The survey's findings indicate that "the handwriting is on the wall" for banking companies that do not make every effort to meet consumer needs in this supercompetitive, deregulated industry, according to Allan F. Paro, director of advertising and marketing services for the American Bankers Association.

The ABA's own research confirms that younger Americans tend to feel disenfranchised from the commercial banking system, Mr. Paro says. He is most alarmed by the discovery that this is true even for young people living in small towns and rural areas, traditionally a bastion of positive sentiment about the commercial banking system.

There, in focus group interviews, people under 35 years of age told the ABA they would "be more apt to use anything but a bank, even to bank out of their back pockets, because they feel like the local bank doesn't want their business," Mr. Paro says.

"We're investigating. We think we're seeing real generational breakaway here," he observes.

The *American Banker* survey finds that individuals age 18-34 are the least likely of all age groups to say they are very satisfied with their most important or principal financial institutions. That could be because they are not yet finished formulating their values and baseline expectations.

This youngest group of Americans tends to choose banks as their most important institutions less frequently than they choose other financial companies. People age 18-34 comprise more than 50% of credit unions' customer base, and only 37% of banks' customer base. This does not bode well for bankers in the new deregulated world where the winning marketing strategy has consumer loyalty locked up early with packages of financial services.

"I would tend to take the *American Banker's* findings as a very serious threat, because by the time you have a majority of people choosing a nonbank here, the game is over," comments G. Lynn Shostack, president of her own consulting firm, Coveport Group, New York. She is a former Bankers Trust Co. executive and founding member of Greenwich Research Associates.

"If the next generation's mind is being successfully wooed by institutions other than banks, that means that when this generation passes, it will be rough indeed to recapture that franchise," she warns.

Satisfaction Breeds Loyalty

Keeping customers satisfied is crucial to keeping their loyalty, the *American Banker* survey finds. Those people who report that they are less satisfied with their main banking companies now than in the past tend to choose anything except those firms as best meeting consumer needs. (Available choices for principal institutions included commercial banks, savings and loans, savings banks, credit unions, stockbrokers, money market and mutual fund firms, insurance companies, and finance companies.)

A marked exception to this rule is credit union members, who tend to pick their credit unions instead of a national conglomerate for best meeting consumer needs. This is true even though credit union members seem to use a wider variety of financial services firms than people who call banks or thrifts their most important or principal financial suppliers.

One reason for their loyalty, other survey data show, is that credit union members are the nation's most satisfied consumers of financial services. Commercial banks ranked last among banks, thrifts, and credit unions in satisfying the people who call them their primary financial companies.

As deregulation proceeds, commercial banks may be in big trouble, the data imply. This is because the new consumer of the future who says he would be likely to go to a nonbank for banking services may not be so interested in buying the same services from a bank.

The survey finds that it is the traditional bank and thrift customer — an older, generally less affluent individual — who says he would go to his principal financial company for a service historically delivered by a nonbank such as discount stockbrokerage, mutual funds, or life insurance.

About a fifth of the consumers would buy stocks and bonds from their principal institution, while 41% would go to Merrill Lynch. About a fourth would buy mutual funds from their main banking company, while 20% would shop at Merrill, 16% would choose Fidelity, and 6% Prudential. And for life insurance, 15% would go to their own institutions while a whopping 53% would rather go to Prudential, the survey says.

The outlook is dismal when it comes to those services consumers are already accustomed to purchasing somewhere other than a bank. In the case of credit cards, only 35% would choose their main banking company while 27% would choose American Express and 19% would choose Sears.

For financial advice, 47% would pick their principal institution while 21% would go to Merrill Lynch.

Hope for Banks in Thrift Data

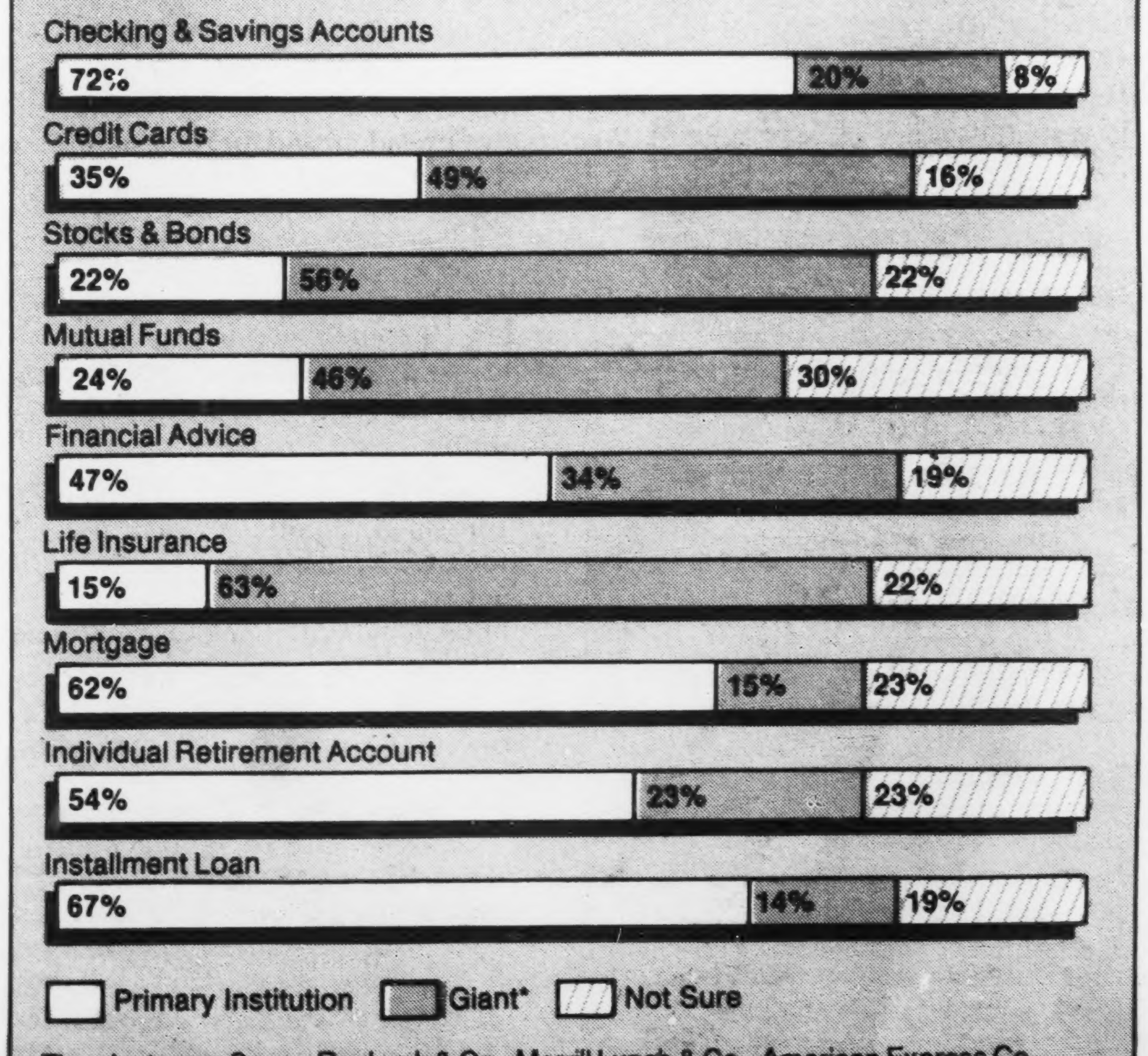
There is hope for banks in some of the findings about thrifts: People who choose savings and loans and savings banks as their primary banking firms are more likely than others to say they'd shop there for stocks and bonds and life insurance.

Since thrifts have offered these prod-

Diversified: Page 10 ➔

The Financial Services Shopping Center of the Future

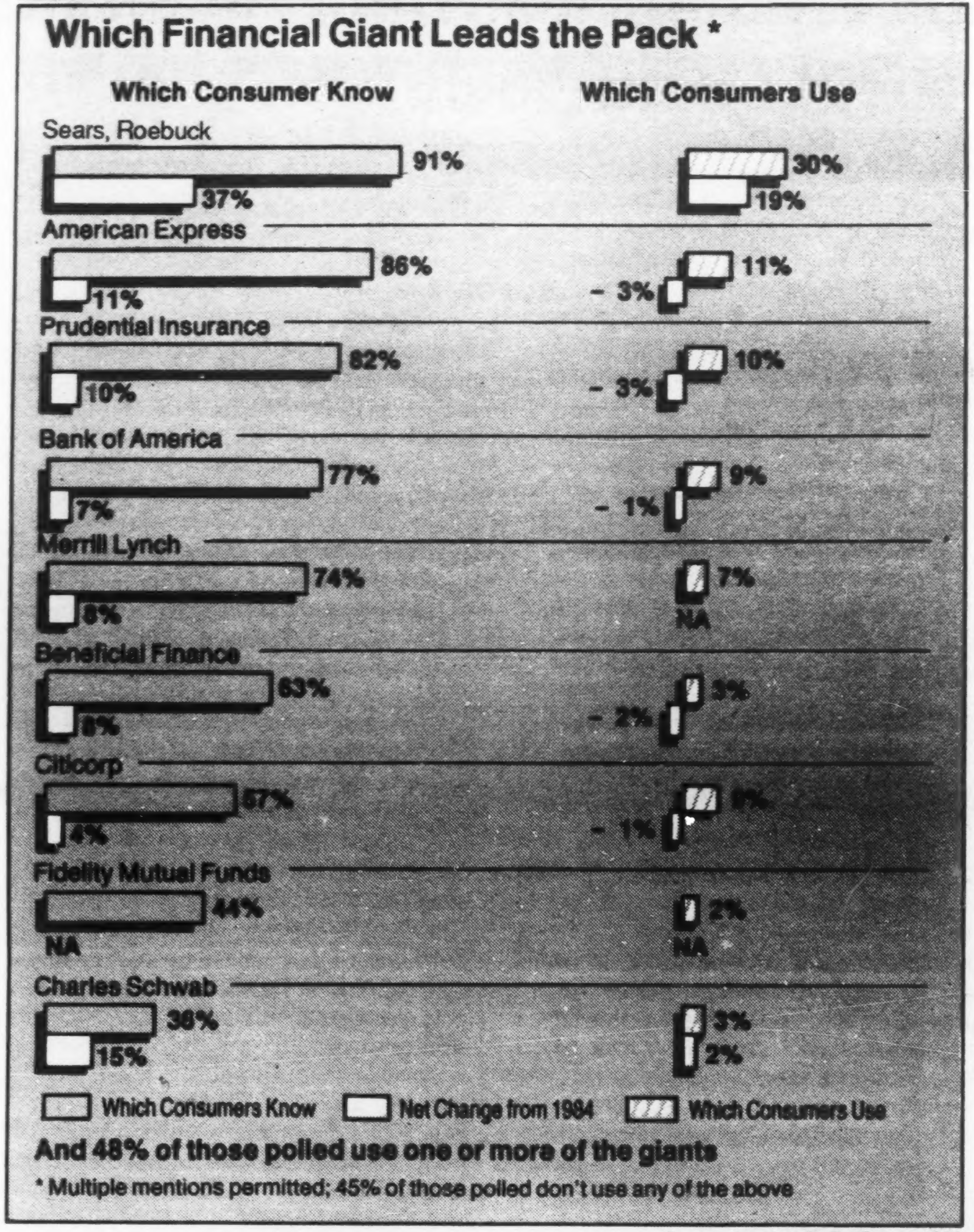
Given equal safety and convenience, where would you be most likely to shop for:



The giants are: Sears, Roebuck & Co., Merrill Lynch & Co., American Express Co., Prudential Insurance Co., and Fidelity Investments.

Source: American Banker Survey, 1986

Sears Bumps American Express From Top of Consumers' List



Which Financial Giant Leads the Pack *

And 48% of those polled use one or more of the giants

* Multiple mentions permitted; 45% of those polled don't use any of the above

Source: *American Banker* Survey, 1986

NEW YORK — American consumers see Sears, Roebuck and Co. as the brightest star in the financial services firmament.

According to the *American Banker's* new national opinion poll, Sears ranks above eight other giant, nationwide financial companies as the one more people know, use, perceive as best meeting consumer needs, and choose as foremost in change and innovation.

Also, in just two years, there has been nearly a tripling in the number of consumers who say they buy Sears financial services — from 11% in 1984 to 30% today.

From its own research, Sears executives reveal that the number of people who've visited one of its in-store financial centers has more than tripled, from 3% of the public in mid-1984 to 10% today. There are Sears financial centers in 327 of Sears' 833 retail stores. These booths house Allstate insurance, Coldwell Banker real estate, and Dean Witter brokerage personnel.

Two years ago, when the *American Banker* first probed consumer attitudes about the national conglomerates, American Express Co. was the people's choice on every measure except change and innovation. Sears topped the list then in that category.

Now, American Express has been pushed down into second place on measures of familiarity, usage, and meeting consumer needs. It maintains its third-place position behind Merrill Lynch & Co. on the measure of which company is most in the forefront of change and innovation.

These findings come from the *American Banker's* third national consumer opinion poll. The survey was conducted by telephone among 1,028 households this spring by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

As part of the research, consumers were read a list of nine diversified financial companies and asked four questions: With which are they familiar? With which do they do business? Which best meets the needs of consumers such as themselves? Which is most in the forefront of change and innovation?

In 1984, 44% of consumers surveyed said they did business with one or more of eight national conglomerates on the list. This year 48% say they do business with one or more of nine. (Fidelity Investments was not included in 1984.)

Their responses indicate an unprecedented boom in financial services business over a two-year period for the first-ranked company, Sears. According to this data, about a fifth of the public started going to Sears for financial services in the past two years.

A Transfer of Awareness?

This dramatic catapult to the top of the heap is well documented by Sears' own research, although executives there wonder if some of the increase found by the *American Banker* doesn't "include a transfer in the customers' mind of our retail credit card business awareness to our financial services business." This comment comes from Allan B. Stewart, vice president, corporate planning.

Such an eventuality is far from out of the question considering that Sears' chief target market for financial services is some of the 40 million households with Sears credit cards: those age 25-55 living in households where the earnings are $30,000 a year or more. Two years ago there were 20 million households with Sears cards, and Mr. Stewart says the growth has been steady.

He also mentions that advertising for Sears' new financial services card, Discover, could be having a reinforcing effect on consumer perceptions of Sears as a financial services company.

In terms of bottom line contributions, the share of net income generated by Sears' financial services business increased 17 percentage points between the end of June 1984 and the end of June 1986. It grew from 57% of the $569.8 million first-half 1984 net income to 74% of the $480.2 million first-half 1986 net income.

In terms of awareness, Mr. Stewart says Sears' research confirms *American Banker's* finding that 91% of the public is familiar with Sears as a financial services company. That figure represents a gain of 37 percentage points in two years, according to the newspaper's calculations.

When Sears embarked upon its foray into the financial services business in 1982, he adds, executives set as a goal the achievement of a 70% awareness level among the public. The 91% figure surpasses their expectation by 21 percentage points.

Also, recent Sears research shows that the company is named on an unaided basis by a solid 31% of the public when consumers mention a diversified financial services firm with which they'd like to do business. Their research shows that, since 1984, there has been a 70% increase in the number of people saying they'd go to Sears in the future for financial services.

All of this, plus the tripling in the number of people visiting financial centers and the general increase in business throughout Sears' entire financial services network, leads Mr. Stewart to comment that "it looks like we're accomplishing what we set out to do."

Financial Services Emphasis

If there are more Sears credit card customers now than two years ago in the additional 19% of consumers who say they buy financial services from Sears, Mr. Stewart says it could be due to increased public awareness.

"Our advertising in the last two years has really stressed financial services. Also, the Discover card advertising has been out there now for several months," he says.

"So, the relationship between Sears' credit cards and its financial services is much more tied together than it was two years ago," he believes.

But he thinks a major reason for the stellar Sears results is the close tie-in of financial services to the retail operations.

"We have had a significant increase in the in-store centers, which really localizes our reputation for trust," he says. "A lot more people see them as they walk through our retail stores." Three out of four Americans visit a Sears store yearly.

There were 277 Sears financial centers at the end of September two years ago. Now there are 327, and Mr. Stewart says Sears plans to add another 25 over the next year and a half, expanding at a far slower rate into remodeled and new stores.

A Question of Expenditures

Some financial services executives would like to attribute the *American Banker's* survey findings about Sears to increased advertising expenditures in the six months prior to the 1984 poll compared with the six months prior to the 1986 poll.

But Mr. Stewart denies that Sears spent any more money for financial services advertising during first-half 1986 than first-half 1984. Advertising expenditures for this category of Sears business have been relatively flat for the past three years, he says, "although we moved some of that money around slightly."

What could be happening, he suggests, is that "we're running very effective marketing campaigns for our individual companies. Then, we tie them

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➔ Continued from Page 9

ucts for a longer time than banks, these findings may indicate that thrifts have done a good job and that, once exposed to these services at a traditional banking firm, people might choose them over nonbanks for stocks or insurance.

At least one industry leader thinks so: "Banks have all been looking for new avenues, offering new services, trying to recapture some of the young marketplace by buying discount brokerage companies, getting into options trading, and mortgage banking. They will eventually get their share of the marketplace, and that too is deregulation," comments C.C. Hope. Mr. Hope is a director of the Federal Deposit Insurance Corp. and, until recently, was vice chairman, First Union National Bank, Charlotte, N.C.

The fact that banks have been taking a more innovative tack in marketing these services might be one of the reasons primary banking companies have made some inroads against national giants over the past two years when it comes to which is most in the forefront of change and innovation.

Two years ago the gap between main banking firms and giants was 35%; this year it narrowed to 28%, although national giants are still the winners with 58% of the public choosing them.

About four in every ten people choosing a nationwide giant on this measure choose Sears. Nearly as many pick Sears for best meeting their needs. Nationwide banking companies score second on both measures this year. Citicorp ranks second for being in the forefront of change and innovation, and Bank of America, second for best meeting consumer needs. Third on innovation is Merrill Lynch, and American Express is third on meeting needs.

The fact that Citicorp and Bank of America do so well is heartening to industry observers, who comment that these large banking firms have led the financial industry when it comes to pushing the limits of existing laws and conducting the kinds of marketing campaigns that are particularly attractive to consumers.

Developing different ways of marketing the myriad of new products that appeal to tomorrow's consumers is critical, Mr. Hope says, if banks are to succeed in the future.

"The commitment of top management is required to make certain that completely different and innovative marketing ideas come forward," he adds.

"Who knows, maybe if you do a survey like this when my grandchildren are 55, traditional institutions will be something other than banks and something else will come along to challenge them," Mr. Hope says. "That's the creativity of the American marketplace; someone is always coming forward with a new idea." ■

— L.G.

35% of Consumers Say They're Likely To Accept Sears' Discover Credit Card

NEW YORK — Thirty-five percent of consumers say they are likely to accept Discover, the new credit card introduced by Sears, Roebuck and Co., according to a recent survey commissioned by the *American Banker.*

The newspaper's survey also finds that nearly half of consumers are aware of the Discover card.

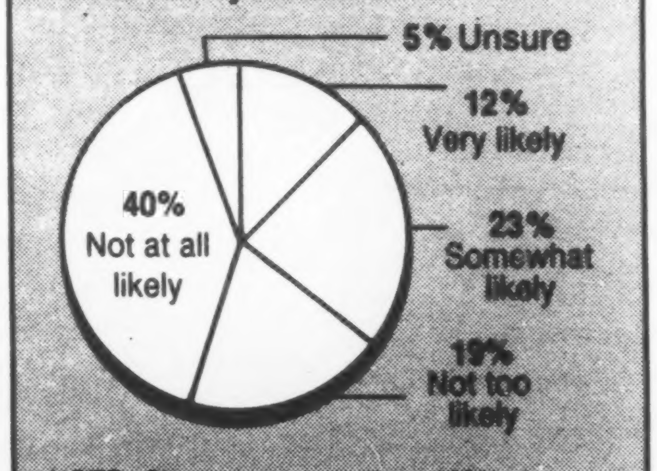
But Sears has been marketing the card nationwide only since January, so it is too soon to measure the most important factor: use.

The *American Banker's* survey also evaluated consumer interest in a range of financial services that Sears could offer through the card.

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., an opinion research firm in New York City and San Francisco.

Discover's Appeal

How likely would you be to obtain the Discover card if it were available in your area?



NOTE: Chart totals less than 100% due to rounding

Source: American Banker Survey, 1986

Consumers' awareness of Discover impressed several industry observers. Asked if they had read, seen or heard of the card, 46% of consmers say yes.

"Forty-six percent sounds very high," says Edward D. Miller, sector executive vice president in charge of retail banking at Manufacturers Hanover Trust Co.

Bankers are keeping a close watch the progress of the Discover card, which is designed to compete directly with MasterCard and Visa.

Sears is spending $40 million this year on television advertising alone for Discover. The company also has taken out print ads and has embarked on a major direct-mail campaign to promote it to holders of Sears credit cards.

By comparison, Visa U.S.A. Inc. and MasterCard International Inc. are spending totals of about $25 million and $40 million, respectively, on advertising this year.

Sears also is positioning the Discover card to serve as the linchpin for a nationwide banking operation. Cardholders can use the card to get cash at automated teller machines and make deposits to a special savings account.

Sears first began issuing Discover in Atlanta last October. The company now has issued 4.7 million cards and is aiming for 10 million to 12 million accounts by the end of 1987.

According to the *American Banker* survey, 6.8% of consumers say they have the card.

Those who do not have the card were asked how likely they would be to take Discover if it were available in their area. A total of 35% say they are likely to take it — 12% responding "very likely" and 23% saying "somewhat likely." Another 19% say "not too likely;" 40% say "not at all likely;" and 5% of consumers polled say they are unsure.

The number of people who say they are "very likely" to take Discover is low, especially since nearly half of the consumers polled say they have heard of the card, says Tom F. Chapman, executive vice president in charge of retail banking at First National Bank of Atlanta.

But Sears says it is not especially worried.

"Nobody needs another credit card," admits Robert E. Wood, chief executive officer of the consumer banking division at Sears' Dean Witter Financial Services Group.

Because Discover carries no annual fee until at least 1988, it costs consumers nothing to take the card. The annual fee provides an important revenue stream at bank credit card operations.

Sears expects to lose $115 million after taxes from its Discover operation this year because of advertising and start-up costs.

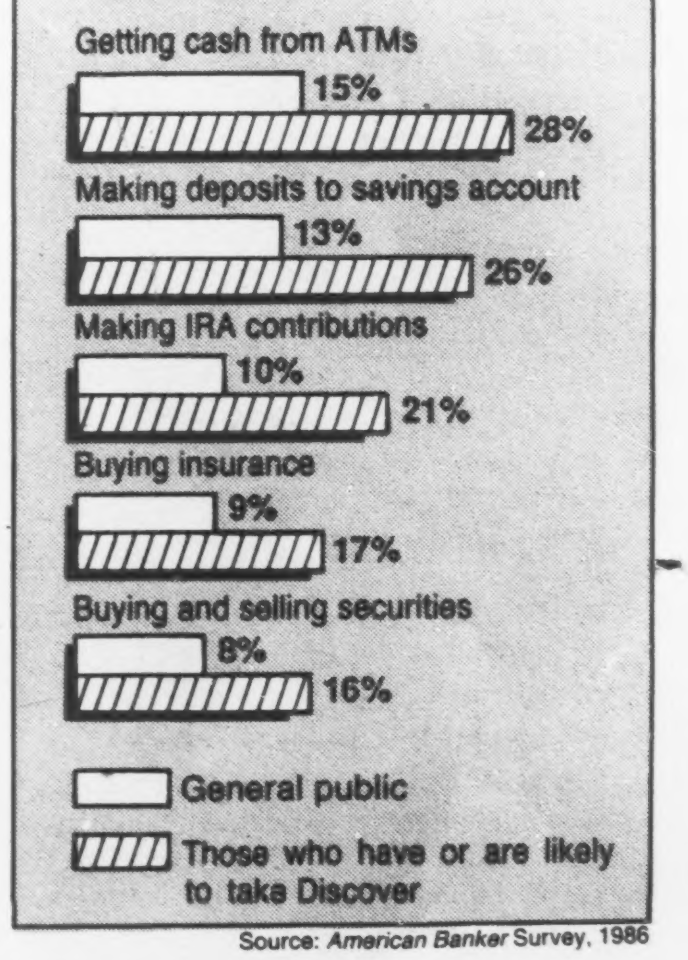
The real issue is whether consumers will use the Discover card instead of a bank card for purchases.

"You want to find out from the consumer: What value do they perceive

Discover: Page 12 ➞

Financial Services Through Discover

These percentages of consumers said they'd be very interested in the following services if offered through the Discover card



Source: *American Banker* Survey, 1986

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back to the Sears name under the umbrella, 'a member of the Sears Financial Network.' "

Also, other sources mention that Sears' merchandising business is always a heavy national advertiser. There could be a spillover from this advertising onto awareness of the financial services business, they say.

Mr. Stewart says you don't have to increase advertising expenditures to increase awareness: "The initial result of advertising is awareness, hopefully followed by a change in your image, and next people will want to consider you for financial services."

"We're three years into the campaign now, and it could be that this process is starting to work — it's converting down to customers," he says.

Conflicting Data

Data compiled by the Television Bureau of Advertising, a not-for-profit organization that tracks such matters, appear to conflict with Mr. Stewart's remarks. The bureau's numbers say that Sears spent more in the first half of 1986 than in the first half of 1984, but almost all of the increase went to pushing its new Discover card, a factor Mr. Stewart did not include in his analysis of expenditures.

The TV ad bureau says Sears spent more than any other single financial services advertiser in first-half 1986, more than American Express, Metropolitan Life Insurance Co., MasterCard International, Citicorp, Beneficial Corp., and Prudential Insurance Co., in order of expenditures.

The advertising trackers say that, in the first half of 1984, Sears spent $24.7 million on television advertising for financial services, while in the first half of 1986 it spent $42.8 million. Discover advertising accounted for about $15 million during 1986, the bureau says. There wasn't any Discover advertising in 1984. These figures are for television advertising only.

Including Discover, the TV bureau figures show a 74% increase for Sears' financial services advertising in first-half 1986 compared with first-half 1984, when the *American Banker* first surveyed consumers about these nonbank financial firms.

Seen side-by-side with a 3% decline in American Express advertising expenditures during first-half 1986 compared with first-half 1984, the Sears data compiled by the TV bureau would provide perspective for American Express' upset in the 1986 *American Banker* survey.

Which Best Meets Consumer Needs

Sears, Roebuck	20%
American Express	6%
Bank of America	5%
Citicorp	5%
Prudential Insurance	5%
Merrill Lynch	4%
Beneficial Finance	2%
Charles Schwab	2%
Fidelity Mutual Funds	1%
None	7%
Not Sure	41%

Note: Figures in chart do not add up to 100% due to rounding

Source: *American Banker* Survey, 1986

Which Is Most In the Forefront of Change and Innovation

Sears, Roebuck	17%
Merrill Lynch	6%
American Express	5%
Citicorp	5%
Prudential Insurance	4%
Bank of America	3%
Beneficial Finance	1%
Charles Schwab	1%
Fidelity Mutual Funds	1%
None	7%
Not Sure	49%

Note: Figures in chart do not add up to 100% due to rounding

Source: *American Banker* Survey, 1986

But even American Express executives say the correlation isn't clear.

"You can't draw a neat cause-and-effect relationship between the survey results and advertising expenditures," says Walter Montgomery, senior vice president, corporate communications.

Besides, he notes, "within the market segments we are most concerned with, American Express is more than holding its own. We don't see the kind of trend your survey shows."

In 1984 when consumers were asked which of the companies on the list best meets the needs of consumers like themselves, American Express ranked first with 10% of all the mentions. In the 1986 survey, American Express received 6% of the mentions, while Sears — mentioned by 9% in 1984 — received 20% of the mentions in 1986.

Mr. Montgomery can't understand it. "Our most recent customer service data shows that vis-a-vis the bank cards, we are considerably out in front in terms of customer service satisfaction.

"The responses we get in our surveys are based on the quality of service we give and the quality of product, not on the advertising. We put hundreds of million dollars into quality of service each year," he notes.

Why didn't people notice?

"I'm not sure they didn't notice. You didn't segment the marketplace as finely as we might," Mr. Montgomery says.

Additionally, he mentions that, since 1985, American Express has focused on advertising individual brand identities for its subsidiary companies, deemphasizing the name American Express and even taking it out of the legal monikers, Shearson Lehman Brothers, and IDS Financial Services.

Sears, on the other hand, reinforces its name at the end of every television advertisement for a subsidiary, saying, "a member of the Sears Financial Network."

The one difference the *American Banker* finds in the awareness level for the two giant competitors is that people age 18-24 are comparatively much more familiar with American Express than Sears. This is probably a function of American Express' intense marketing to college students.

When it comes to who does business with each firm, Yuppie baby boomers, age 25-44 in dual-wage earning households where the income exceeds $40,000 annually, choose Sears only about as much as the general public. They choose every other major provider twice as much as the public.

"They're snooty," comments one analyst about the Yuppies, "and Sears still has a blue-collar image."

Unlike other people who choose American Express, Yuppies pick Citicorp second to Sears as best meeting their needs. Similarly, instead of Merrill Lynch, they choose Citicorp second to Sears as being most in the forefront of change and innovation.

There is a three-way tie for third place on which best meets consumer needs in the 1986 *American Banker* survey among Bank of America, Citicorp, and Prudential Insurance.

For being in the forefront of change and innovation, American Express and Citicorp are tied for third, with Prudential coming in a close fourth. ■

— L.G.

Consumers Find Credit Card Interest Too High And Say They Would Switch to Cheaper Banks

But Some Bankers Say Customers Aren't Shopping

NEW YORK — A majority of consumers think credit card interest rates are too high, and many of them say they would switch credit cards for a "much lower" rate, according to a recent survey commissioned by the *American Banker*.

The survey also finds a higher sensitivity to interest rates among the most profitable credit card customers — those who carry outstanding balances from month to month.

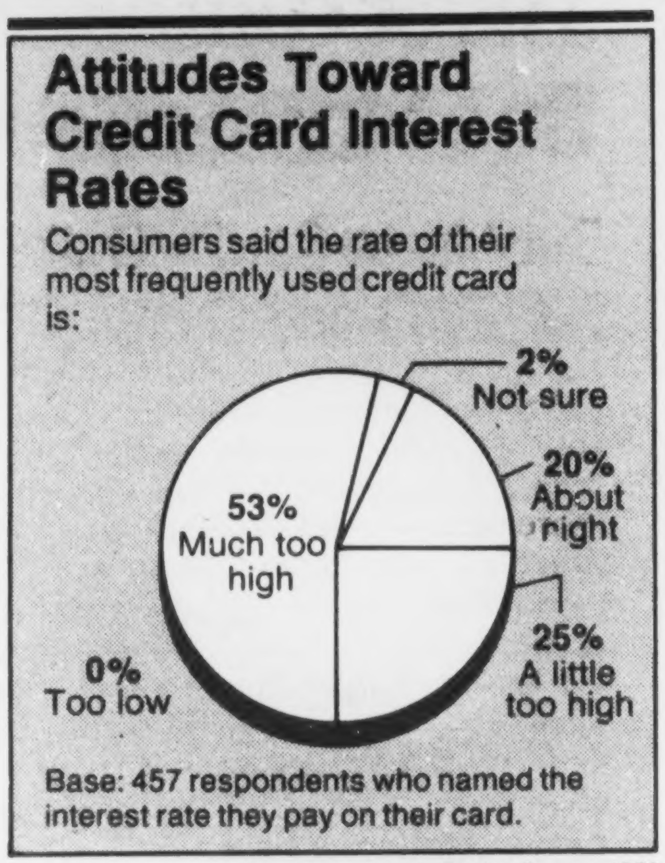
The newspaper's third annual survey gauged consumers' attitudes on a range of issues in the financial services industry. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., a New York City-based opinion research firm.

This is the first of two articles on how consumers view credit cards.

For years, the prevailing wisdom in the industry has been that consumers are basically insensitive to credit card interest rates. Now, it appears that bankers are divided over that issue.

"Our experience to date has been that the credit card user is not that sensitive to rates," says Henry J. Silver, a vice president at Wells Fargo Bank in San Francisco.

"We believe that consumers do pay attention to rates and will change," counters Carl M. Harris, first vice president at People's Bank in Bridgeport, Conn.



Attitudes Toward Credit Card Interest Rates

Consumers said the rate of their most frequently used credit card is:

Base: 457 respondents who named the interest rate they pay on their card.

Source: *American Banker* Survey, 1986

As competition in the credit card business intensifies, some analysts are predicting price-cutting in the form of lower interest rates. But for many banks, the question is how severely rates must be cut to attract new customers.

A few months ago, People's Bank and other Connecticut institutions slashed their interest rates to 12% or less, while competing card issuers have maintained their rates of at least 18%. Connecticut bankers report that the lower rates are wooing away customers from other banks.

But at many banks, a rate cut of such magnitude would drastically lower income and turn the credit card operation into a money loser, bankers say.

"A 'much lower' rate probably equates to five percentage points lower," says Mr. Silver, who believes such a reduction would endanger the profitability of Wells Fargo's card operation.

Older Accounts, Lower Losses

Wells, however, has lowered its credit card interest rate from 20% to 17% for customers who have held the bank's cards for at least five years. Loan losses are lower on older accounts, so the bank can afford the cut, which also serves as a move to guard against low-rate competition, Mr. Silver says.

"From our research, we feel the consumer perceives the credit card as a service more than a vehicle for borrowing money," says Charles M. Cawley, president of Maryland Bank NA in Newark, Del., a subsidiary of Maryland National Corp. in Baltimore.

"However, I think they are sensitive to [the rate]," he adds. "But I think if the interest rate is in the reasonable band, they are not."

What is the reasonable band? Anywhere from 15% to 18%, Mr. Cawley says. He thinks consumers become "a little sensitive" when rates reach 19% and above.

Maryland Bank cut its credit card rate from 18.8% to 17.9% in January, and Mr. Cawley says that he thinks the bank has picked up market share.

"We think we are taking some share from banks," says Charles R. Walsh, senior vice president at Manufacturers Hanover Trust Co. in New York.

Manufacturers Hanover cut the rate on its credit cards from 19.8% to 17.8% last October and launched a massive marketing campaign in an effort to attract new accounts.

A few dozen small and medium-size issuers have cut their rates over the last year or so. But most of the top card issuers, which represent a large portion of the market, have not moved their

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➞ Continued from Page 11

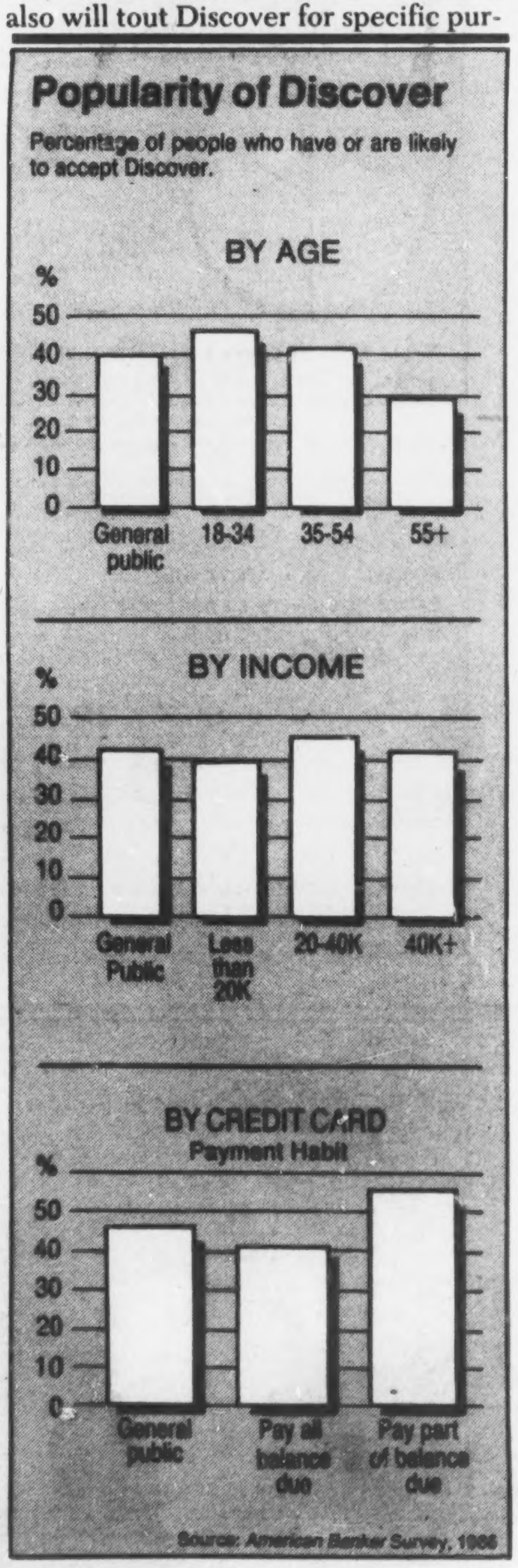
from the Discover card?" says Mr. Miller.

The card becomes attractive to consumers once they recognize its special features, Mr. Wood says. To promote customer use, Sears is offering rebates for purchases made with the Discover card and has deals with certain merchants to discount goods and services when purchased with the card.

These values are not immediately recognizable, Mr. Wood says.

"There's no way that message can get across on television," he says. "That really has to be done by direct mail."

In addition, now Sears is rolling out a new ad campaign — called "Smart Move" — promoting the card's nationwide access to cash, its lack of annual fee, and its rebate features. The ads also will tout Discover for specific purposes, such as access to cash at ATMs, for purchases in stores, and use at travel locations.



Popularity of Discover

Percentage of people who have or are likely to accept Discover.

Source: American Banker Survey, 1986

Industry experts are not surprised that 40% of the surveyed sample expresses no interest in the Discover card, because a certain portion of the population always has avoided credit cards. The *American Banker* survey finds that 29% of consumers do not have any credit card.

The survey also finds relatively little distinction by age or income among consumers who have, or are interested in getting, the Discover card.

However, a noticeably smaller percentage of those 55 years old and older are interested in the card. Traditionally, many older people are skeptical of credit cards in general.

"We are not targeting our message to any particular age group," Mr. Wood says. The company has focused its marketing efforts on current Sears cardholders, who are represented strongly among those aged 25 to 44, he adds. "Twenty-five to 44 is the core if you look at the expenditures."

The *American Banker* survey shows a disproportionate level of interest in Discover among banks' most profitable credit card customers — those who carry outstanding balances from month to month, known as revolvers.

"I'm not surprised by that," Mr. Wood says, citing independent surveys in Atlanta in which consumers said they took Discover primarily to get another credit line.

"I don't think that that bothers me," observes Mr. Chapman of First Atlanta. "The rollers are the ones who feel they can manage one more purchasing instrument.

"So far, they've not been able to make inroads," he adds, referring to Discover's experience in Atlanta, the first market for the new card. "We've not found any impact in the marketplace here in cardholder dissension or cardholder flight."

However, Discover is more than a credit card. Sears hopes to establish a nationwide bank through its plastic.

About one-quarter of those who say they have the Discover card or are interested in getting it are very interested in making savings account deposits through the card, according to the survey.

"The 26% figure is higher than I would expect," says Helene Duffy, principal in the New York City consulting firm of Duffy & Duffy Inc. "That's the one that banks should be most concerned about."

The Discover savings account resembles a money market deposit account. Account holders can write up to three $500-minimum checks per month.

Discover customers have been opening deposit accounts with average balances of at least $10,000, according to one securities analyst, who requested anonymity.

"It is much higher than we had planned," Mr. Wood says, declining to name the average balance size.

Some large banks have tried to collect deposits from out-of-state customers by mail, with mixed results. It has proved a difficult task because such efforts often attract "hot money," which moves from bank to bank in search of the best interest rate.

Sears is paying tiered interest rates — from 5.5% on balances below $1,000 to 6.5% on more than $5,000. In addition, on balances of at least $1,000, the company is offering introductory rates one percentage point higher for the first month until mid-November.

Last week, major financial institutions around New York City were paying 5.1% to 5.5% on their money market accounts.

The deposit account is perhaps the most important factor in an overall banking relationship. "The Discover card proves that we do have the ability to establish a remote banking relationship," Mr. Wood says.

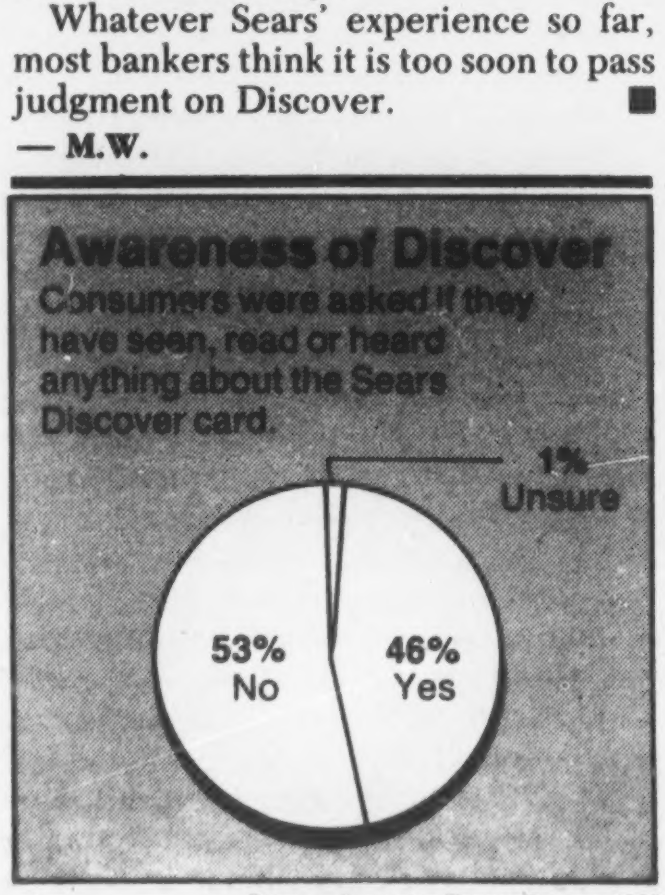
If so, Sears would succeed where Citicorp has encountered rough sledding. The holding company has been marketing its Citibank Financial Account since March 1984 in several markets around the country. It is a package of services that includes a checking account, access to cash at local ATMs, and credit cards.

A source knowledgeable about the operation says that Citicorp has had difficulty gathering checking account deposits, although the banking company says the account has "exceeded our expectations."

"I don't think the basic checking account is designed for a remote customer," the source says.

Whatever Sears' experience so far, most bankers think it is too soon to pass judgment on Discover. ■

— M.W.



Awareness of Discover

Consumers were asked if they have seen, read or heard anything about the Sears Discover card.

Source: *American Banker* Survey, 1986

The Product May Be Identical, But MasterCard Ranked Second

But MasterCard's Outlays For Ads Lead Competitor

NEW YORK — Although MasterCard and Visa cards are virtually identical products, consumers rate Visa more highly than MasterCard for a range of uses, according to a survey commissioned by the *American Banker*.

These findings come at a time when both MasterCard International Inc. and Visa U.S.A. Inc. are in the midst of advertising campaigns that cast each card in a different light.

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., a New York City-based opinion research firm.

This is the second article on how consumers view credit cards. Visa's superior image reflects the power of good marketing, industry observers say. "That's nothing but classic consumer-product marketing strategies," says Thomas N. Hammelman, senior vice president at First City Bancorporation of Texas in Houston.

Meanwhile, MasterCard has been outspending Visa on advertising for the past three years. This year, MasterCard's ad budget is around $40 million, while Visa is spending $25 million, according to industry sources.

Also, Visa cards outnumber MasterCard plastic. At the end of June, there were 78 million MasterCard cards and 107.6 million Visa cards in the United States and Canada, according to the firms.

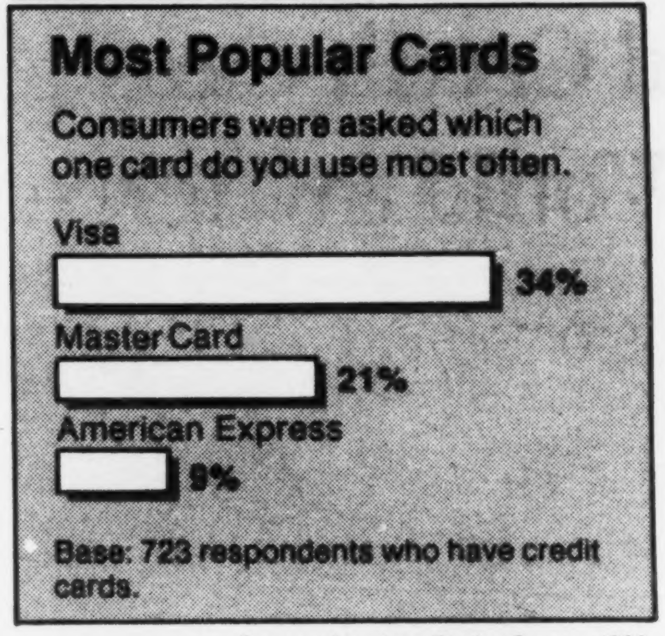
The *American Banker* attempted to discount Visa's numerical advantage — since consumers are inclined to favor their most frequently used card — by eliminating frequent Visa users from its tally of those who say Visa is the best card. Likewise, frequent MasterCard users were screened out from those who say MasterCard is best.

Visa still outranks MasterCard in all eight credit card characteristics listed in the survey.

Yet MasterCard and Visa cards offer consumers the same basic service — the ability to borrow money instantly — and they are generally accepted for payment in the same stores. Individual banks, which issue the cards and extend the credit, have been trying to customize their cards in recent years, but industry experts say they are basically similar.

Most Popular Cards

Consumers were asked which one card do you use most often.



Base: 723 respondents who have credit cards.

Source: *American Banker* Survey, 1986

In-house research at MasterCard International Inc. confirms the results of the newspaper's survey.

"It is indicative of a long-term problem," admits Joanne Black, senior vice president at MasterCard. "We've always been behind."

But MasterCard claims that its new advertising campaign — "Master the Possibilities" — is making headway against Visa.

After eight weeks into the campaign, more consumers named MasterCard first when asked to think about credit cards, according to MasterCard's research. Unaided awareness, as this is called, increased from 29% of consumers to 35%. Unaided awareness of Visa dipped from 47% to 45%, MasterCard says.

But MasterCard does not expect drastic changes soon. "We don't expect to see any significant movement in this area for at least a year," says Brad Iversen, vice president of market research at MasterCard.

The campaign, which began Feb. 23, features celebrities touting the card because it provides them with the freedom to live their lives as they see fit, to "master the possibilities."

"We're saying you can use it anywhere," Ms. Black says. She says that MasterCard wants to contrast the universal acceptance of its product with the more limited scope of travel and entertainment cards, which are used most frequently for restaurants and travel services.

Meanwhile, Visa's current ad campaign positions the card more as a travel and entertainment card.

MasterCard's new ads are also a change from its prior campaign — "So Worldly, So Welcome" — which showed the card being used in exotic places around the world.

Ms. Black says that the image of widespread acceptance is also important to stave off competition from a new entry in the credit card market — Sears, Roebuck and Co.'s Discover card.

While MasterCard is struggling to boost awareness of its name, Visa is already confident on that score. Now Visa is attempting a more sophisticated marketing task — to foster an image in

Survey: Page 14 ➽

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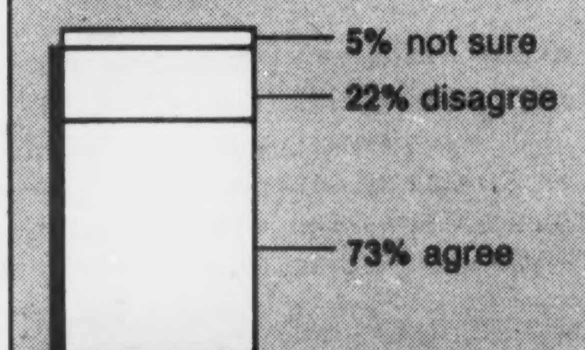
rates from the usual 18% or more.

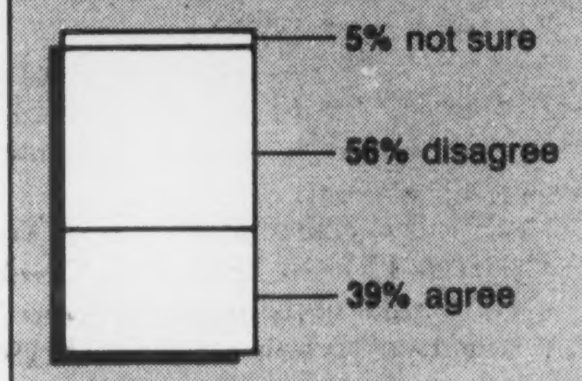
In the last year or so, banks have been criticized by politicians and in the press for excessively high credit card rates. Market interest rates have dropped since the double-digit highs of 1981, and the Federal Reserve Board has cut the discount rate four times so far this year.

Consumer Attitudes Toward Credit Card Interest Rates

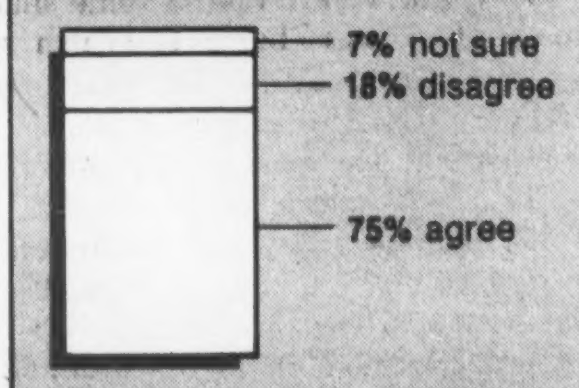
I think banks and other credit card issuers are taking advantage of the public with the high rates they charge.



If you think about the convenience of having credit when you need it, the interest rates charged on credit cards are really not bad.



If another bank offered me a much lower interest rate on my credit card borrowing, I'd seriously consider signing up for that other card.



Base: 723 people who have credit cards.

Source: *American Banker* Survey, 1986

But credit card rates have increased only slightly since the American consumer's romance with plastic money began in earnest in the late 1960s. And single-digit interest rates were the norm for most of the 1970s without any outcry over card rates.

So some bankers think that factors other than consumers' attitudes have created the current commotion over card rates.

Negative Publicity

Many bankers blame the negative publicity on politicians looking for an easy campaign issue.

"I think the news media has done more than its share of heightening the awareness of rates," says D. Dale Browning, president of Denver-based Colorado National Bank. "I do not think the consumer has reacted as negatively."

In fact, nearly 40% of the cardholders polled in the newspaper's survey cannot name the interest rate they pay on their most frequently used credit card.

A number of bankers say that consumers' inertia prevents them from changing to lower-rate cards even if they think that rates are too high.

"Conceptually, lower interest rates are probably always in fashion," says Thomas N. Hammelman, senior vice president at First City Bancorporation of Texas in Houston.

"There's been very little price-shopping taking place," adds Joel P. Friedman, director of strategic management at Arthur Andersen & Co. in San Francisco, who observes that cheaper cards are available. "That suggests that inertia in the marketplace is very high."

It is difficult, however, to compare credit card prices with one another like other consumer goods, such as stereos and televisions, Mr. Hammelman says.

The *American Banker* survey shows a higher sensitivity to interest rates among the most profitable cardholders — those who carry outstanding balances from month to month, also known as revolvers. These are the people who are being assessed finance charges.

Those who pay off their credit card balances each month — known as convenience users — generally avoid paying any finance charges, since most banks allow a monthlong, interest-free grace period for credit card purchases. In effect, these cardholders enjoy an interest-free loan from their bank.

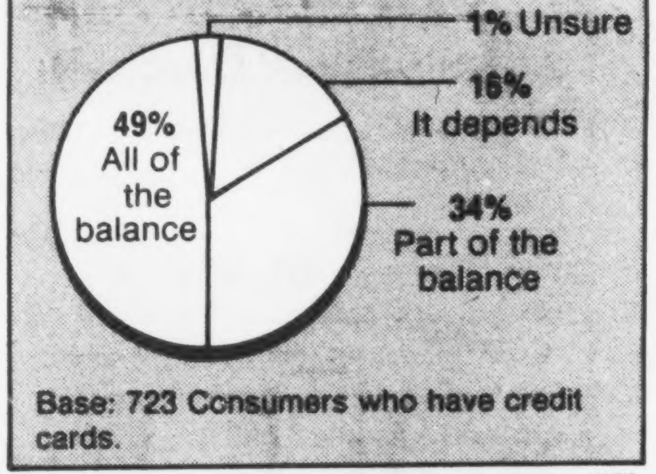
While 75% of the cardholders say they would "seriously consider signing up" for a credit card with a "much lower interest rate," a higher proportion — 82% — of revolvers express that sentiment.

The survey also finds a pronounced sensitivity to rates among young middle- and upper-income households. Of those age 25-44 with single-wage-earner incomes of at least $20,000, 89% say they would consider signing up for a lower-rate card.

This group also is heavily represented among revolvers. While 34% of the cardholders say they regularly roll over credit card balances, 49% of this young, affluent group says it does so.

Credit Card Payment Habits

Do you pay all of the balance due each month or part of it?



Base: 723 Consumers who have credit cards.

Source: *American Banker* Survey, 1986

Some bankers think factors other than interest rate are more significant to consumers.

"I think annual fees are more important than interest rates," says Colorado National's Mr. Browning.

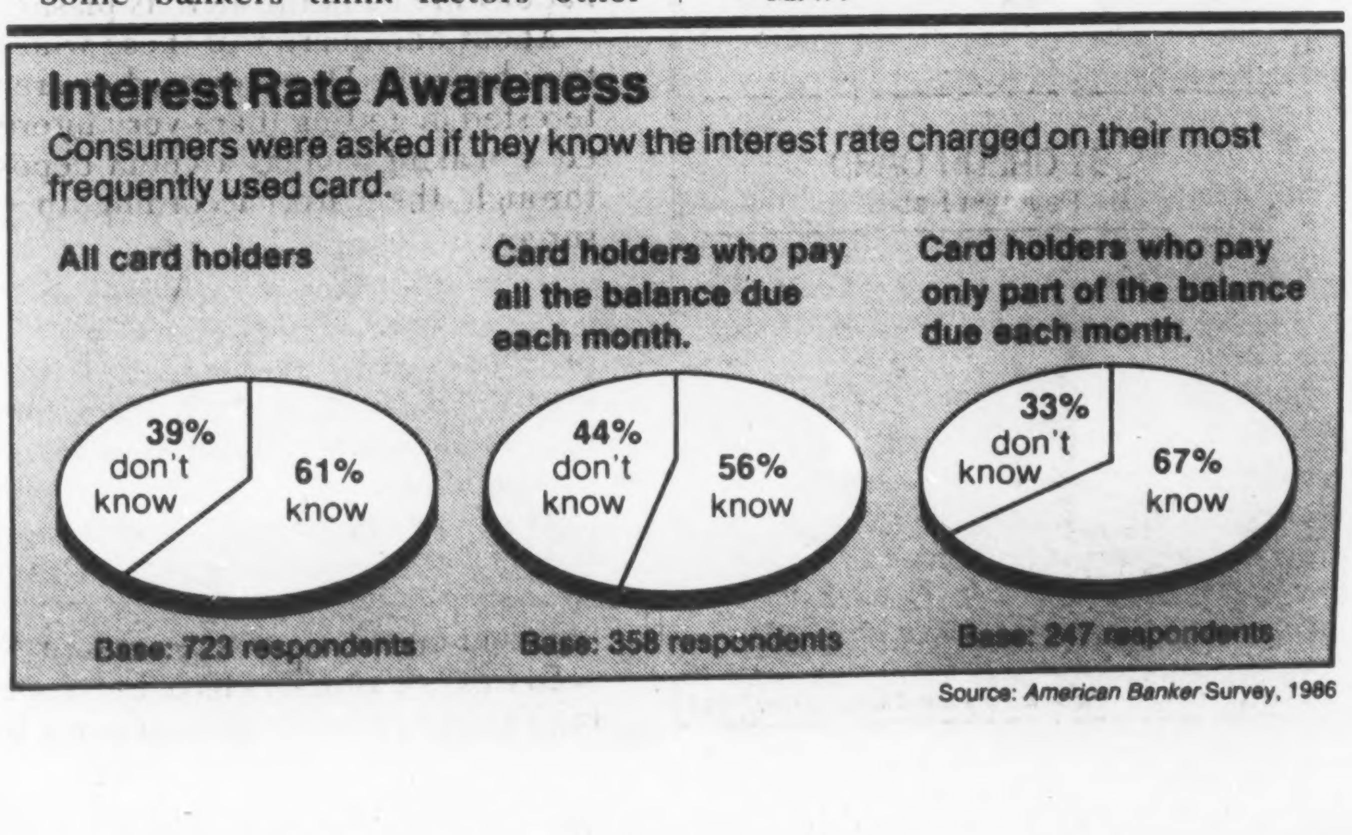
Other bankers consider a large credit line to be a persuasive reason in consumers' minds.

"We know we're offering fairly high credit lines," says Mr. Walsh of Manufacturers Hanover, who speculates that his bank's cards may be attracting customers of regional banks who want higher credit limits. The interest rate charged by regional banks is generally in line with Manufacturers Hanover's 17.8% rate.

— **M.W.**

Interest Rate Awareness

Consumers were asked if they know the interest rate charged on their most frequently used card.



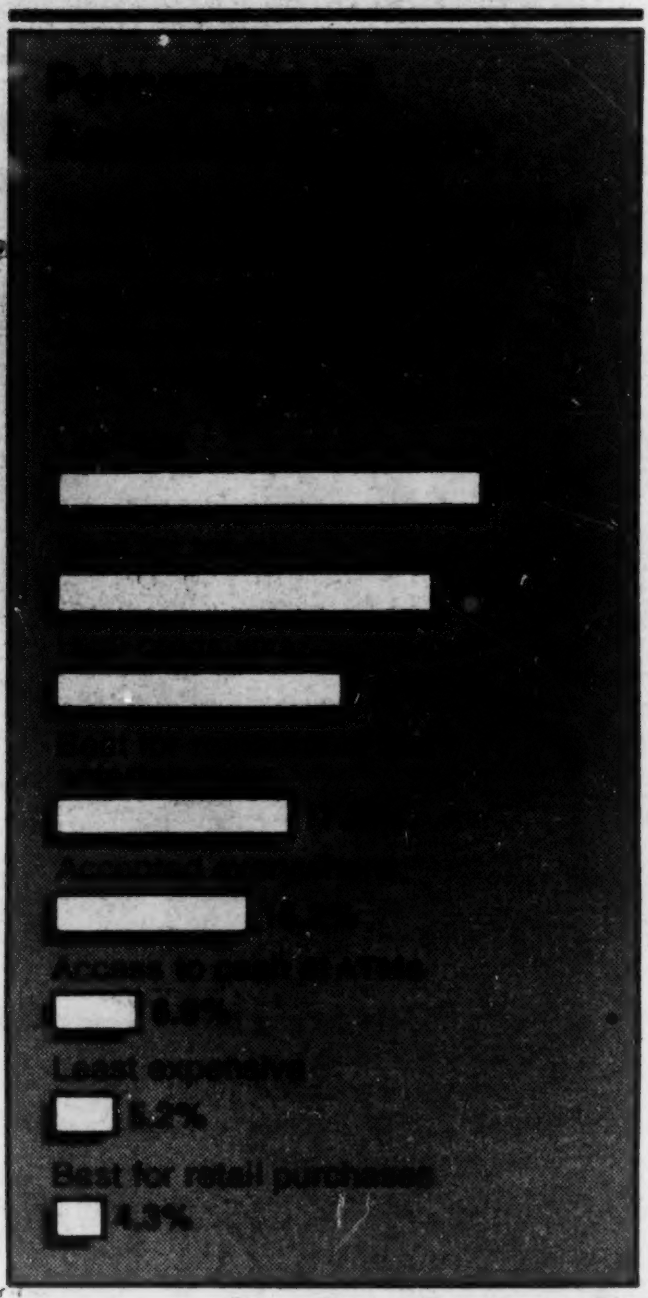
Source: *American Banker* Survey, 1986

American Express Scores on Prestige, But Retail Rating Falls Short of Mark

NEW YORK — The American Express card is tops for prestige and travel uses, but it gets low marks for retail purchases, according to consumers polled by the *American Banker*.

Retailers, however, represent one of the most important markets for American Express Travel Related Services Co., which handles the charge card business. And the company is gearing up for a major marketing push in that area.

American Express has traditionally promoted the card's exclusivity and its value to travelers, but within the last two weeks the company has started advertising the card as a shopping tool. Beginning this month, the company began offering to extend the manufacturer's warranty on goods purchased with an American Express card for up to one year.



Source: *American Banker* Survey, 1986

Retailers are now the fastest growing merchant segment for American Express, says Edwin M. Cooperman, president of the Consumer Card Group USA at American Express. "We think you're going to see these numbers moving positively."

Now, the card ranks well below Visa and MasterCard in that category, according to the newspaper's survey.

Too low, Mr. Cooperman says. The survey results are "significantly different from our data," he adds.

But, he agrees, "we're in very low levels of retail stores compared to bank cards."

The bank cards are accepted at far more merchant locations than American Express. There are 1.4 million merchants worldwide that accept the American Express card, while MasterCard and Visa are accepted by more than 5 million merchants.

Consumers also give American Express a relatively low rating for access to cash at automated teller machines. But in the last year or two, American Express has energetically pursued deals with banks to expand ATM access for its cardholders.

"We haven't done our marketing effort yet [for ATMs]," Mr. Cooperman says.

There are about 8,300 ATMs around the world open to American Express cards, compared with 13,400 ATMs for MasterCard and 10,000 for Visa.

Mr. Cooperman also says that the *American Banker* survey distorts consumer attitudes toward American Express since the company generally does not market to people who earn less than $20,000 annually, except in certain areas. Thirty-one percent of the survey's 883 respondents who disclosed their incomes earn less than $20,000. ■

— M.W.

Most Consumers Say It's a Good Idea For American Express to Own a Bank

NEW YORK — People think it's a good idea for American Express to own a bank, but they're not so sure about Sears Roebuck, Merrill Lynch, Prudential Insurance, or Fidelity Investments.

The *American Banker's* latest consumer opinion poll shows that a wide margin of consumers believes that it would be appropriate for American Express to own a bank. Almost six in 10 people vote yes for American Express Co., while about three in 10 say no.

This margin is absent from consumer responses about the other financial services companies. In the case of Merrill Lynch & Co., nine percent more people vote in favor of the firm owning a bank than vote against the idea. But when it comes to Sears, Roebuck and Co., Prudential Insurance Co., and Fidelity Investments, people are generally divided over the issue with about as many in favor as opposed.

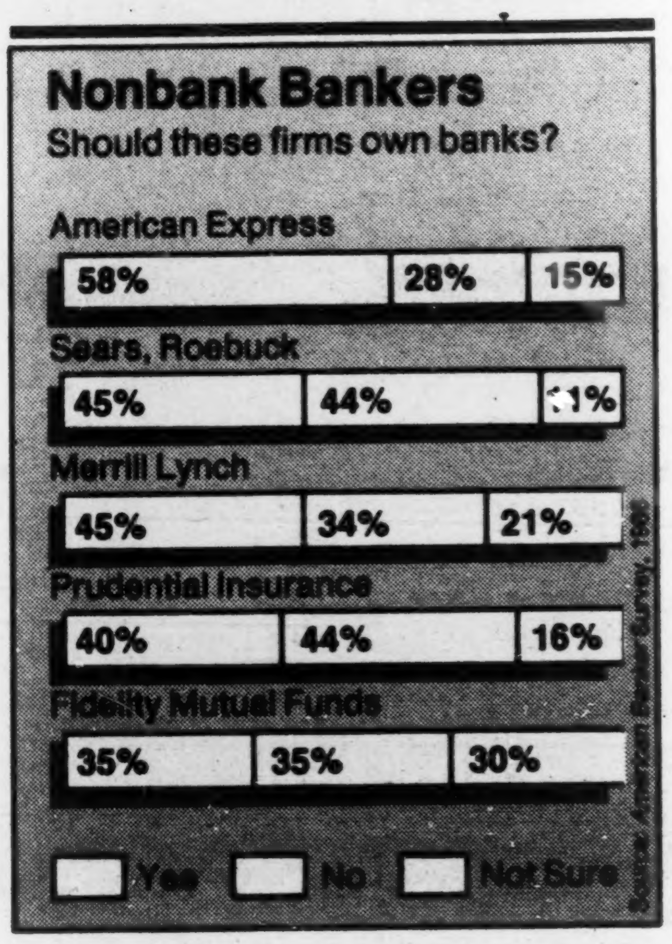
These are findings from the *American Banker's* third national consumer opinion survey. The telephone poll was undertaken this spring among 1,028 households by Reichman Research Inc., an opinion research firm based in New York and San Francisco.

The reason that American Express does so well is that "the first two associations people have when they think of American Express are products banks offer, too — charge cards and travelers checks," says David Reichman, the president of the company that conducted the research.

"They choose American Express to own a bank because that company has been positioning itself as a bank, so it is a bank in the minds of some consumers. If it looks like a bank, acts like a bank, and quacks like a bank, it must be a bank," suggests John A. Russell, vice president, Banc One Corp., Columbus, Ohio, and the president of the Bank Marketing Association this year.

American Express officials agree about the cards and travelers checks, but with the important caveat that "it's a hypothetical question for us. We don't own a domestic bank. It's illegal.

"It's nice to hope that this result indicates people have a great deal of trust in us. Our research indicates they do. We like to believe that we've delivered on the promise of reliability in our travelers check and credit card businesses," says Walter Montgomery, senior vice president, corporate communications.



Ironically, all of the institutions named in the survey question already own banks. American Express Co. owns an international bank — the American Express Bank Ltd., New York — and two domestic banks, the IDS Trust Co., Minneapolis, and the Centurion Bank, Newark, Del. The one headquartered in New York does only an international business. Both domestic institutions are what is called nonbank banks.

Nonbank banks are limited-service facilities that allow their parent firms to escape the jurisdiction of the Bank Holding Company Act through a loophole that defines a bank as something that either accepts demand deposits or

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➳ Continued from Page 13

consumers' minds.

Visa's current ad campaign — "Everywhere You Want to Be" — has been running about a year and takes direct aim at American Express. The ads show restaurants and other travel spots that accept Visa but do not honor American Express cards.

The *American Banker* survey shows that consumers rate Visa slightly higher than American Express for restaurant and entertainment use.

John Bennett, Visa senior vice president, thinks Visa is benefiting from the "halo effect" of comparing itself to American Express. He thinks that American Express' prestigious reputation may rub off on Visa because of the association in the ads.

The newspaper's survey shows that consumers think American Express is more prestigious, better for travel, and offers higher credit limits than the bank cards.

MasterCard is now beginning to run ads that tout the card's usefulness in department stores. This may further distinguish MasterCard and Visa as a bank card and travel and entertainment card, respectively.

But card-issuing banks generally see them as similar products. "They are generic services today," observes John F. Fisher, senior vice president at Banc One Corp. in Columbus, Ohio.

Consumer perceptions are also affected by bank advertising, since individual banks promote their own cards. For example, New York City-based Manufacturers Hanover Trust Co. may have inadvertently encouraged a distinction between Visa and MasterCard.

The bank, a heavy credit card advertiser this year, has been running ads for its Visa cards that are set in restaurants. The bank's ad for its MasterCard product features a young, suburban woman.

"My MasterCard ads did look like a purchase-type [card]," says Charles R. Walsh, senior vice president at Manufacturers Hanover, who disavows any intention of distinguishing the cards.

Several industry observers trace Visa's edge over MasterCard to 1977, when the BankAmericard name was changed to Visa. Bank of America introduced its own credit card — BankAmericard — in 1958, and began licensing it to other banks in 1966. These banks formed what became the Visa organization.

"When you hear the name Visa, you get an idea," Mr. Bennett says. "To me, it's a concept rather than a transaction. You think of travel."

"There was a second-class imagery that was hard to shake," concedes Ms. Black, referring to the Master Charge name, which preceded the MasterCard name. The name was changed in 1979.

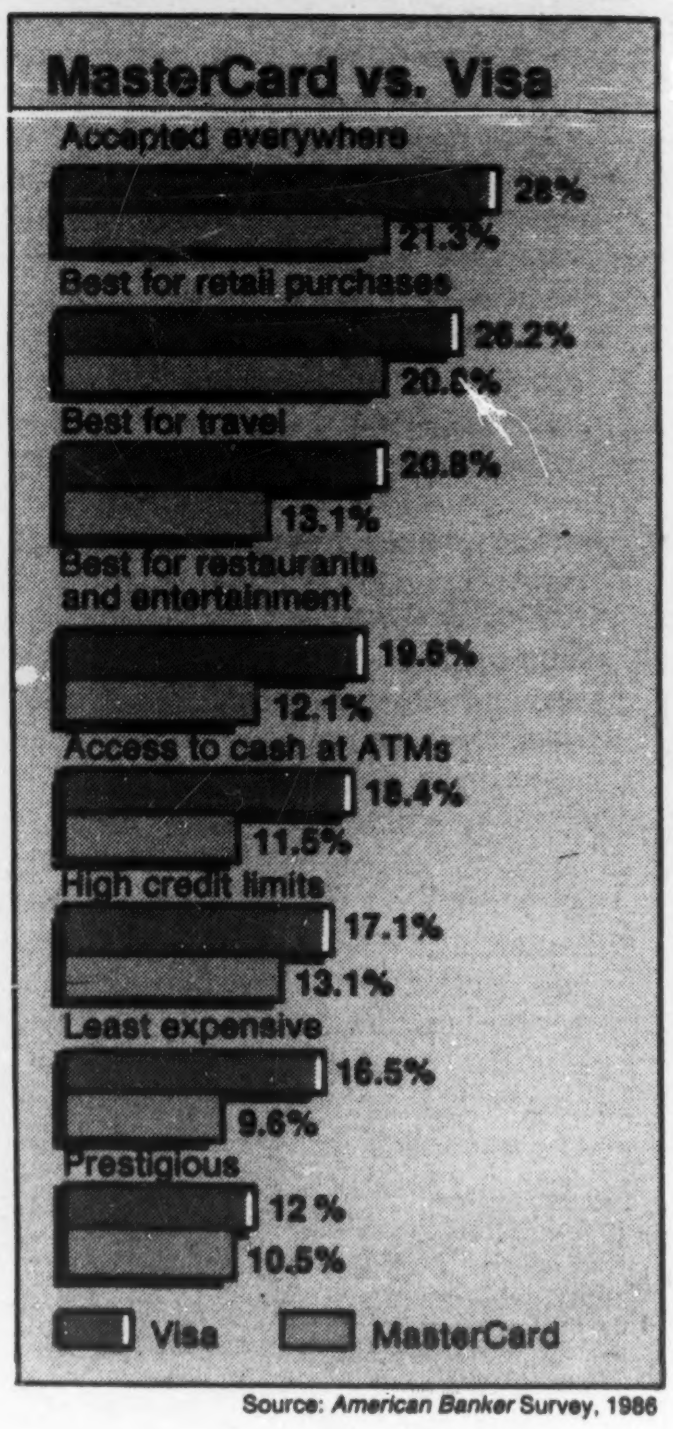
BankAmericard's name change was accompanied by a marketing blitz to promote it. And by the end of 1978, Visa surpassed Master Charge in number of cardholders and has retained the lead ever since. Until then, Master-Charge had consistently outranked Visa.

Some bankers say that advertising is not the only factor affecting consumer perceptions of bank cards. "The original card that somebody's gotten, if they haven't had a problem, they still consider it their [primary card]," says Mr. Hammelman of First City Bancorporation.

According to the *American Banker* survey, consumers express considerable uncertainty about credit cards' usefulness for getting cash at automated teller machines, their relative costs, and the availability of high credit limits.

Of 723 cardholders polled, 33% saythey do not know which card is best for access to cash at ATMs, 23% say they do not know which credit card is least expensive, and 17% say they do not know which card offers the highest credit limits. ■

— M.W.



Source: *American Banker* Survey, 1986

Customer Lines Not Getting Longer at ATMs

But Consumer Survey Finds More Heavy Users

NEW YORK — The number of people using automated teller machines in 1986 has remained virtually flat compared with a year ago, according to a survey commissioned by the *American Banker*.

However, the number of heavy users — those who say they use banking machines for every transaction — has doubled, and some bankers think that repeated use by ATM addicts is a major reason that more transactions are flowing through the nation's teller machines.

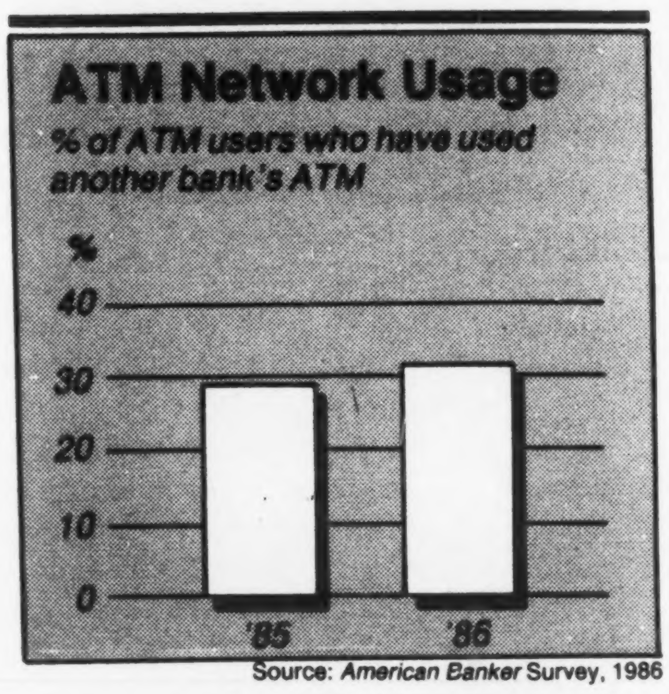
Even though transaction volume is up, industry observers say that at least some of the machines are not cost-effective. And bankers are divided over the importance of attracting new users quickly to ATM technology.

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues in the financial services industry. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., an opinion research firm in New York City and San Francisco.

Financial institutions have installed more than 60,000 ATMs in the name of better service and efficiency. The machines operate 24 hours a day and can handle a large number of routine transactions more economically than a human teller.

The equipment is costly to operate, however, and some bankers say the industry must work harder to persuade more people to use ATMs.

"People have been putting in machines much faster than people are using them," says Richard N. Speer, the president of Speer & Associates Inc., an Atlanta-based consulting firm specializing in electronic banking.


ATM Network Usage
% of ATM users who have used another bank's ATM

Source: *American Banker* Survey, 1986

Teller machines made their first appearance in the United States around 1970. Usage has increased since then, but in recent years growth has been flat or slight at most financial institutions.

The *American Banker* survey this year finds that 45% of consumers say they have used an ATM, down a bit from 48% in 1985.

The newspaper's survey shows these changes in ATM usage patterns:

	'86	'85
Every time	4%	2%
Most times	9%	13%
Sometimes	15%	16%
Hardly ever	16%	17%
Never use	55%	52%

"It's going to take years and years for society to use new services like ATMs," says D. Dale Browning, the president of the Colorado National Bank, Denver.

"Our real hope is for young people," Mr. Browning says. While 45% of the general public has used ATMs, 62% of those age 18 to 34 have used the machines, according to the *American Banker* survey.

There are two steps in promoting ATM usage. The first is issuing plastic access cards to as many customers as possible. The second is persuading them to use those cards. According to banking sources, 35% to 40% of cardholders are using ATMs regularly.

"[Usage] is going to grow naturally," says James T. Brewer, executive vice president with the Wachovia Bank & Trust Co., Winston-Salem, N.C. "Younger people are more comfortable with the machines."

In the meantime, Wachovia Bank & Trust is satisfied with the customer usage. "It's too hard to move it," Mr. Brewer says. "The marketing expense to move it measurably beyond the 35% is more than you can afford for the results you'll get."

A major source for more ATM usage is bank customers who do not have ATM access cards, Mr. Speer says. He reasons that half the population has an ATM card and that one-quarter will never use the technology, leaving one-quarter of the population lacking cards but willing to use ATMs.

But banks have been working harder recently to increase ATM usage by their existing cardholders, says Marjolijn van der Velde, managing director of the retail financial services group at Bank Administration Institute, a research organization in Rolling Meadows, Ill.

Among the 55% of consumers who have never used an ATM, the newspaper's survey finds from responses to an open-ended question that 29% say they had no reason to do so, 17% say their financial institution does not have any machines, and 10% say they would rather deal with humans.

The *American Banker* survey shows these changes in usage patterns among consumers who have used ATMs:

	'86	'85
Every time	8%	4%
Most times	19%	27%
Sometimes	34%	33%
Hardly ever	37%	36%

Even if some bankers are disappointed with the level of ATM usage, they say the technology provides better service and is paving the way for a more efficient banking system in the future.

Teller machines let customers get cash, make deposits, and check their account balances any time of the day or night.

"It's moving them towards a self-service banking environment," says Ralph A. Kuebler, vice president with the Maryland National Bank, Baltimore.

"Over time, it will result in a more cost-effective delivery system for banks," says Douglas D. Anderson, senior vice president with the Philadelphia National Bank. "It's a long-term investment."

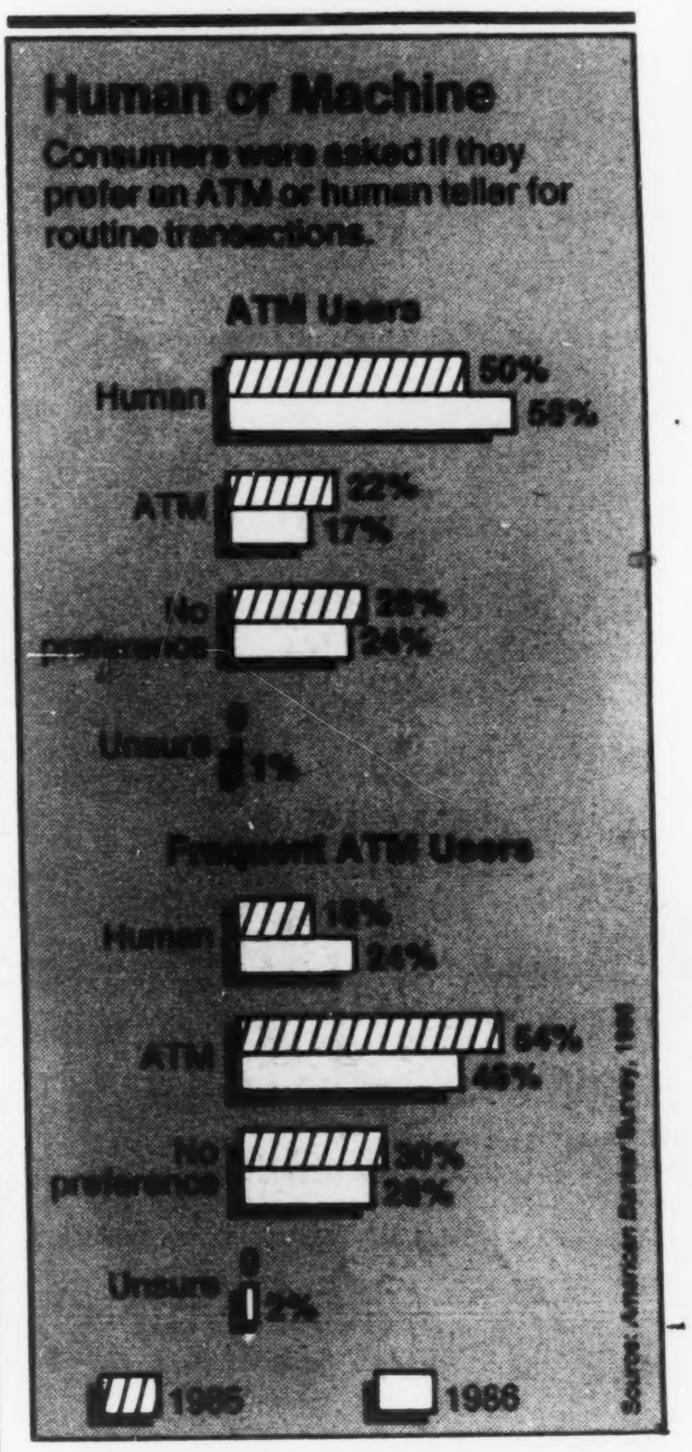
ATMs can save a bank money if they attract enough customers so that the bank can use fewer tellers and thus reduce labor costs. The machines also can lower brick-and-mortar costs if they enable the bank to eliminate branches, use smaller branches, or limitthe hours that branches are open.

"We think it's three to five years off before you'll see substantial cost savings," Mr. Speer says.

He estimates that it costs $50,000 a year to run and maintain one automated teller machine, which represents the major cost of an ATM program compared to the purchase and installation of the equipment.

"Our cost analysis indicates they're basically a break-even proposition," Mr. Brewer says. "I don't think they've saved us any costs.".

But at banks with low transaction volumes, teller machines simply have increased the costs of providing retail banking services, industry observers say. "In every instance, they haven't been economically justified," says Mr. Browning of Colorado National.


Human or Machine
Consumers were asked if they prefer an ATM or human teller for routine transactions.

Source: American Banker Survey, 1986

Banks also can recoup part of their investment in ATMs by charging consumers fees for using the machines. Some banks have begun levying such charges, but it is still a controversial issue in the industry.

In addition, many consumers say they prefer live tellers over ATMs.

The *American Banker* survey shows an increase in consumers' preference for humans. Among ATM users, 58% prefer humans in 1986 compared with 50% the year before. And among frequent ATM users, 24% prefer live tellers, compared with 16% in 1985.

"There has been a continual preference for the human teller," Mr. Speer says.

Frequent ATM users, however, still prefer a machine over a teller, according to the newspaper's survey.

"An active ATM user is very active," Mr. Speer says. "When they get to use the machine, the average user is using it, on average, five times a month."

And some banks easily have surpassed the industry standard.

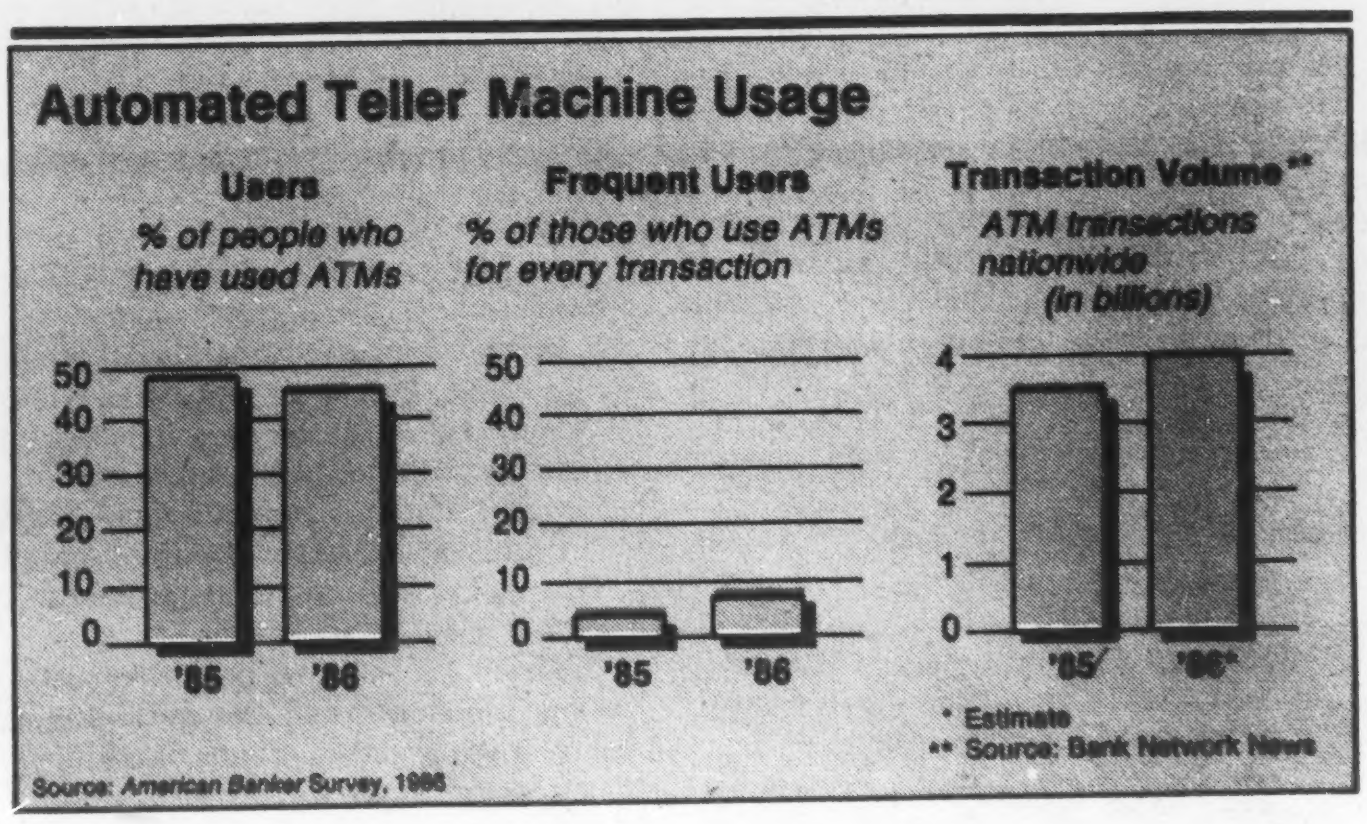
At New York City-based Citibank, 85% of the bank's debit cardholders use teller machines an average of nine times a month, says Ray Quinlan, a Citibank vice president.

Shared networks — which allow customers of one bank to use another bank's machines and vice versa — also have helped boost usage in some cases.

At Philadelphia National Bank, 65% of the customers' ATM transactions occur at other banks' machines, Mr. Anderson says. Philadelphia National belongs to the MAC network, which includes 1,800 ATMs in Pennsylvania, New Jersey, and Delaware.

The *American Banker* survey finds that usage of shared networks is up slightly this year. Among ATM users, 32% of consumers say they have used another bank's ATM this year, compared with 29% in 1985. ■

— M.W.


Automated Teller Machine Usage

* Estimate
** Source: Bank Network News
Source: *American Banker* Survey, 1986

➸ **Continued from Page 14**

makes commercial loans. They do one or the other. Both American Express banks in the United States are consumer banks.

Sears also owns consumer-oriented nonbank banks, the Greenwood Trust Co., in Delaware, and the Hurley State Bank, in South Dakota. Also, Sears owns the federally chartered Sears Savings Bank, Glendale, Calif.

Fidelity owns three banks: the Fidelity Management Trust Co., Boston; the Fidelity National Bank and Trust Co., New York; and the Fidelity Bank and Trust Co., Salem, N.H.

Prudential owns a bank, too: the Prudential Bank and Trust Co., Hapeville, Ga., which is a bankers' bank, offering asset-liability management and other correspondent services to smaller commercial banks nationwide.

Robert L. Burr, vice president in charge of research at Prudential, says he doesn't take it too hard that Prudential is the only one of the five companies that more people say no to than yes.

"They'd say that about any insurance company. The association between banking and insurance companies is harder for consumers to make than for nondefinable organizations such as American Express or Sears," he says.

Merrill Lynch recently acquired the Merrill Lynch Bank and Trust Co.,

Bank Ownership: Page 16 ➸

Most Consumers Object to Fees On Automated Teller Machines

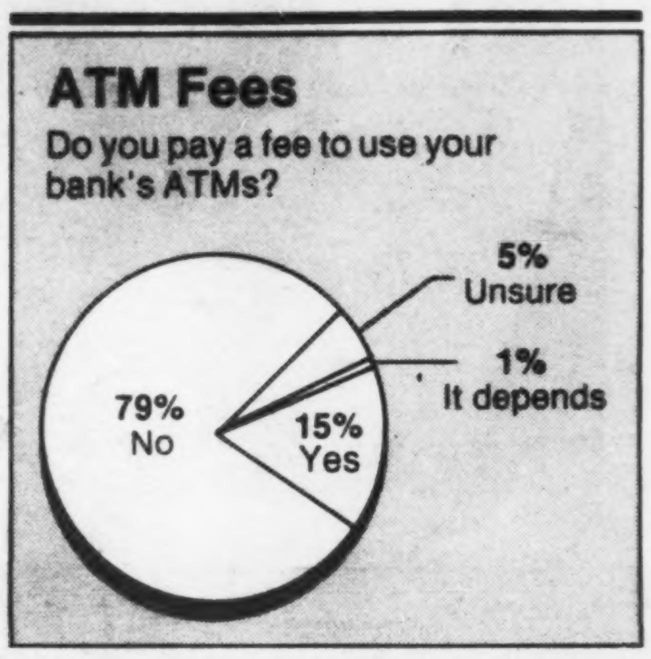
Bankers Divided on Issue; Some Fear Drop in Usage

By MICHAEL WEINSTEIN

NEW YORK — A majority of consumers think that it is unreasonable for banks to charge them for automated teller machine transactions at a time when more and more banks are levying such fees, according to a survey commissioned by the *American Banker*.

Some bankers think that consumers are willing to pay for the convenience of using the machines. And ATM fees contribute to banks' noninterest income — an increasingly important source of revenue for the banking industry.

Other bankers, however, oppose ATM fees, saying that the charges will deter customers from using the machines and defeat the purpose of installing the equipment.



ATM Fees

Do you pay a fee to use your bank's ATMs?

Source: *American Banker* Survey, 1986

The newspaper's third annual survey, "How Consumer America Views the Changing Financial Services Industry," gauged attitudes on a range of issues in the financial services industry. The nationwide telephone survey polled 1,028 adults between May 30 and June 18. It was conducted by Reichman Research Inc., an opinion research firm in New York City and San Francisco.

"Consumers have proved to be relatively insensitive to pricing of ATM transaction services, within reason," says Douglas D. Anderson, senior vice president at the Philadelphia National Bank. "Financial institutions can indeed do it."

Philadelphia National levies teller machine fees when cardholders' account balances fall below required minimum levels.

"The consumer is willing to pay for the time and location convenience, but only after he's experienced it," says Richard N. Speer, president of Speer & Associates Inc., an Atlanta-based consulting firm. "It's very hard to put these prices in place until he's experienced the value."

When asked in the *American Banker's* survey whether it is reasonable for a bank to charge a small fee each time a consumer uses its teller machines, 33% of ATM users say yes, 65% say no, and 2% are unsure.

"Those kinds of opinions are not terribly valuable," says James T. Brewer, executive vice president at Wachovia Bank & Trust Co., Winston-Salem, N.C. He adds that consumers generally say they oppose paying fees when given a choice.

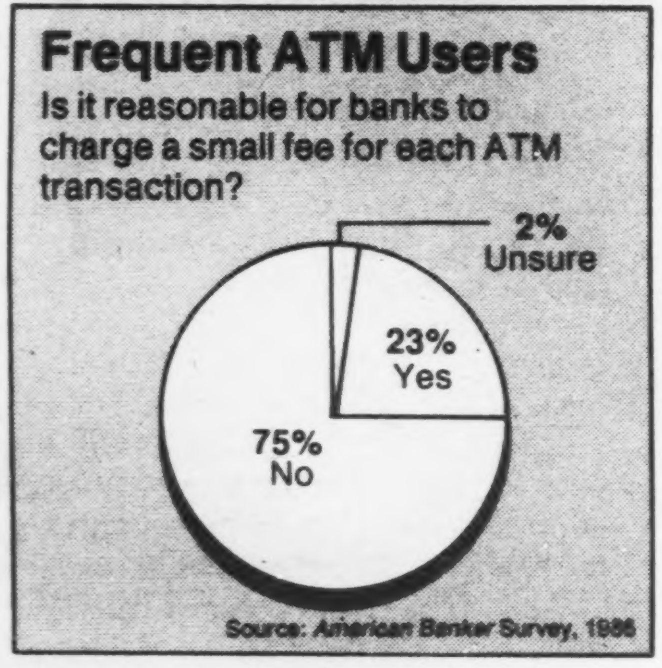
He says he is encouraged, however, by the number of people who say it is reasonable for a bank to charge transaction fees. "I don't think we should give away ATM transactions," he says.

On the other hand, the Colorado National Bank, Denver, does not charge customers for teller machine transactions so as not to discourage them from using plastic cards in computerized terminals, says D. Dale Browning, president of Colorado National. The machines can handle a large number of routine transactions more efficiently than human tellers can.

"Fees to generate revenues is probably a contradictory marketing policy," says David Reichman, the president of Reichman Research. "I think the light users could be dissuaded by any type of fee."

The *American Banker* survey finds that 71% of ATM users are infrequent users — those who say they use the machines sometimes or hardly ever.

The newspaper's survey also finds that 15% of ATM users pay a fee for using their bank's teller machines while 79% do not. Five percent are unsure and 1% say it depends on the type of transaction.



Frequent ATM Users

Is it reasonable for banks to charge a small fee for each ATM transaction?

Source: *American Banker* Survey, 1986

Several industry observers think the number of consumers paying fees for ATM usage is even higher. "I think a lot of people don't know that they're paying a fee," says Ralph A. Kuebler, vice president at Maryland National Bank, Baltimore.

Anywhere from 40% to 60% of ATM users actually are paying teller machine fees, Mr. Speer estimates. "Service charge income has risen dramatically."

Many banks levy charges for teller machine usage as part of their overall checking account package. For example, a customer might pay 15 cents to 25 cents per item — be it an ATM transaction or check — if his or her balance drops below a preset minimum. At other banks, when balances get too low, a monthly fee is assessed that covers a range of services, including ATMs.

In Florida and Texas, however, banks have been charging explicit fees for more than a year on certain ATM transactions. In those states, banks have been charging anywhere from 50 cents to a dollar for foreign transactions — those that are made at machines owned by another financial institution.

Bankers there report that transaction volume has grown despite the fees. Teller machine networks in Texas and Florida rank among the nation's 10 largest by transaction volume, according to *Bank Network News*, an industry newsletter in Chicago.

"The volumes within our program continued to escalate dramatically," says Stan Paur, president of Financial Interchange Inc., Houston. Financial Interchange operates the Pulse network of some 4,100 ATMs owned by more than 1,700 financial institutions.

Pulse recorded 2.9 million foreign transactions in August 1985, and that number passed four million last August.

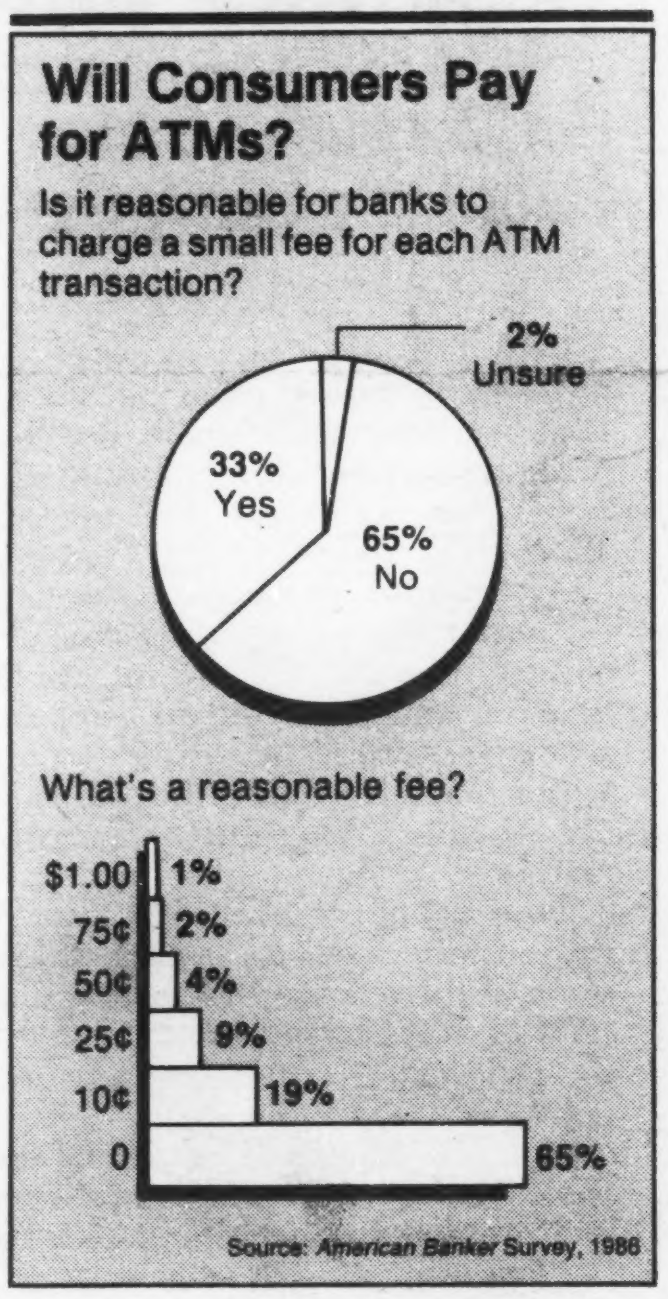
"It hasn't seemed to hamper us at all," echoes Michael A. Strada, the president and chief executive officer of Florida Interchange Group Inc., Orlando, which operates the Honor network. Honor has 280 financial institutions and about 2,100 teller machines.

"Transactions will drop considerably for [each] institution for about 60 to 90 days, then the volume will come back," Mr. Strada says. About nine months after the fees start, transaction volume exceeds the pre-fee level, he says. Honor handled 2.6 million foreign transactions last September, compared with 1.9 million in September 1985.

Often, other institutions' ATMs are located more conveniently than a bank's own machines for consumers that use them. "The consumer is willing to pay a reasonable fee for that convenience," Mr. Paur says.

Banks also justify such fees based on higher costs. When cardholders use another institution's machine, the card-issuing bank must pay the ATM-owning bank a fee for that transaction.

One consultant says he thinks that banks should look closely at frequent ATM users and should design a package of services, such as extra features available via teller machines, specifically for that market. Banks could charge for these services as long as customers believe they provided extra value, says John C. Shaw, a national partner at the accounting firm of Touche Ross & Co.



Will Consumers Pay for ATMs?

Is it reasonable for banks to charge a small fee for each ATM transaction?

What's a reasonable fee?

Source: *American Banker* Survey, 1986

The *American Banker* survey finds that the number of people who use teller machines for every transaction has doubled in 1986, while the total number of users has dipped slightly.

"I think the banks need to be much more precise about the specific retail markets they're serving and what the needs for those markets are," Mr. Shaw says.

And one industry observer advises against transaction fees for teller machine service.

"I think consumers are becoming sensitive to being nickeled and dimed to death," says Marjolijn van der Velde, the managing director of the retail financial services group at the Bank Administration Institute, a research organization in Rolling Meadows, Ill. "You need to price the ATM on the whole relationship, not as a single product. The pricing issue, I think, is critical."

According to the newspaper's survey, more sentiment against fees exists among frequent ATM users than among all ATM users. However, some experts say they think the heavy users are willing to pay for the value they get from the service.

"The people who use them are going to use them — no matter, as long as it is reasonable," Mr. Reichman says. ■

➵ **Continued from Page 15**

Plainsboro Township, N.J. But it has not decided yet whether to take consumer deposits or make commercial loans.

"We're just getting started," explains James M. Flynn, vice president, corporate communications.

He suggests that perhaps Merrill received more of a vote of confidence on this measure than three other financial services suppliers because "a lot of people might see us as providing somewhat of a banklike function through our Cash Management Account, which comes with checks. And we have a million CMA credit cards out there, too."

But Sears offers credit cards. Sears owns banks. Sears' Dean Witter group offers a cash management-type account, the Active Assets Account. Why don't more people think Sears should own a bank?

Mr. Flynn says he has no idea. Sears executives have none either. "I wonder, though, if you'd asked the question 'Sears/Dean Witter/Allstate,' if you'd have gotten the same response," says Allan B. Stewart, Sears vice president for corporate planning.

What matters to him, he says, is that research done by Sears last year shows that a lot of people think their money would be just as safe at Sears as at a bank.

Sears asked its customers: "Assuming some day Sears may have banks around the country, do you feel that your money would be safer, as safe, or less safe at Sears than at a local bank?"

Eighty-three percent said as safe, 8% said safer, 7% said less safe, and 2% didn't have an answer.

That's the kind of data that encourages the demise of the Glass-Steagall Act, the one that keeps banking and commerce separate.

And it begs the chief public policy question raised by the proliferation of nonbank banks, according to James E. Boland, general counsel for the Senate Banking Committee: "Is there any way to protect against potential abuses other than separate ownership of banking and commercial enterprises?"

He doesn't venture an opinion but he does observe that these survey findings show that "people don't realize those firms already own banks."

Even if people did know, he says, they probably wouldn't concern themselves with the fact: "I just don't think the average consumer thinks about this," Mr. Boland says. — **L.G.**